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 COLLEGE 
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ADMINISTRATION

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395-43
5-23-49

BOSTON UNIVERSITY

College of Business Administration

THESIS

A. ~~Security~~ Analysis of the New England Shoe Industry

by

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(A.B. University of California 1947)

Submitted in partial fulfillment of
the requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

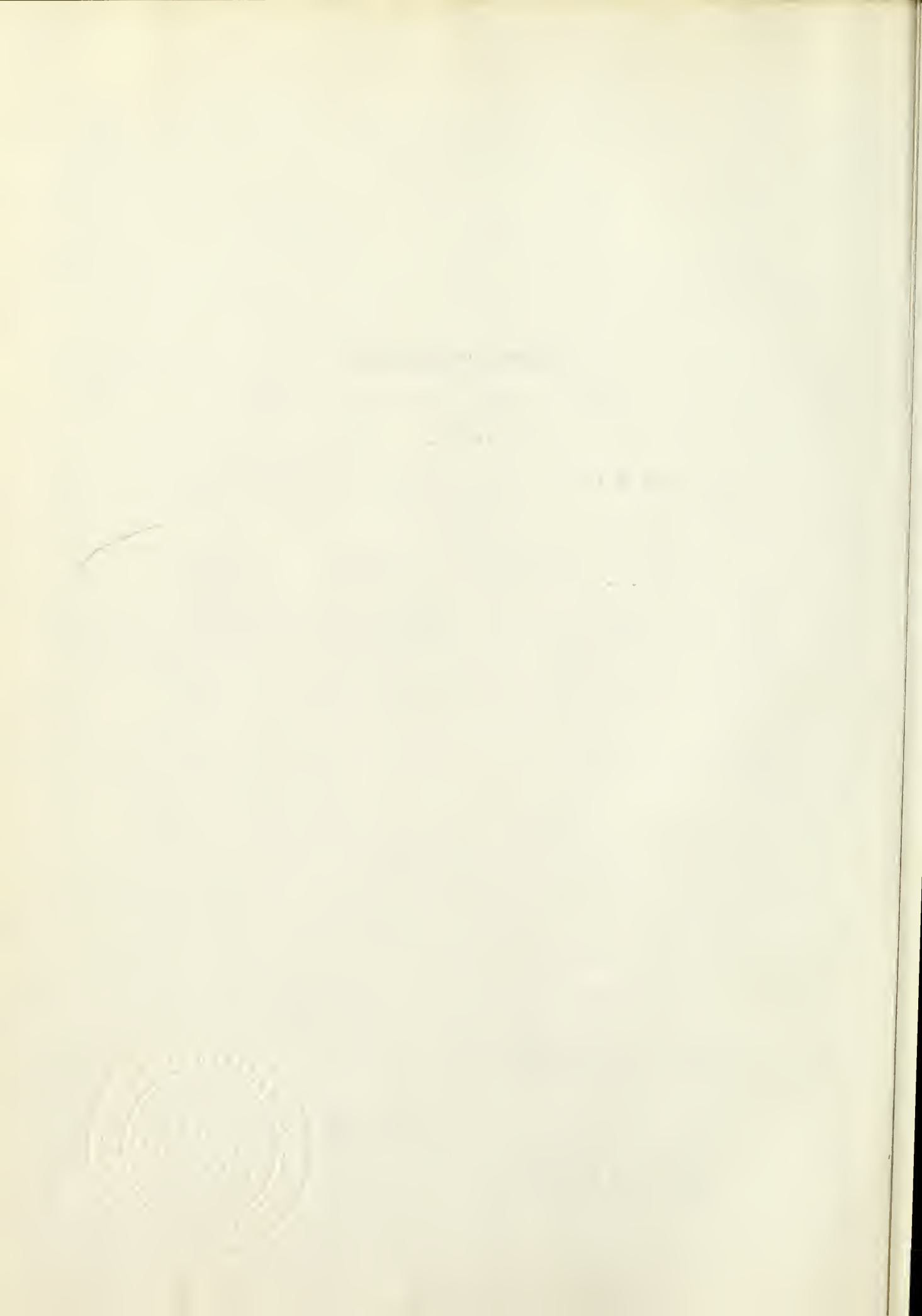


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INTRODUCTION

Within a generation the debilitating effect of two serious depressions suggest that the investor can no longer make a purchase or entertain the notion of a purchase without a careful investigation of the field of stocks in which he wishes to invest. The concept of investments which are safe and need no review is happily disappearing. Careful standards of selection of stock and reasonable, periodical inspection are necessary and should be sufficient to prevent serious losses.

Therefore, this thesis is concerned with the contemplated or retention investment. With this thought in mind it is necessary to make a careful examination of similar companies within an industrial field, their records, their general future, the quality of production, and earnings and leadership between them and the leading companies, and from these facts present sound conclusions in a logical manner so that a determination can be made of whether the issues should be "bought, sold, retained or exchanged for some other." (1)

The New England shoe industry presents an interesting study for the investor. The economics of the industry are a vital factor in the economics of the New England

region. All of the shoe concerns investigated have long, established reputations for output, quality and stability. Furthermore, they were selected because they are the larger of the many companies in the New England section and because they have characteristics that make the problem of comparison with the national leaders more cogent. Therefore, the essential problem to the analyst is: Do these concerns present worthwhile investments?

Very recently a study by the Federal Reserve Bank of Boston was made in regard to the New England shoe industry. So much data, which were not procurable elsewhere, were available from this source that the author has drawn heavily upon this study.

The National Shoe Manufacturers Association has also made available a great many facts which when assembled in their proper perspective gave a very revealing glimpse of the condition of the shoe industry as a whole and to a limited degree that of New England.

Much of the financial information was obtained from the financial services--Standard & Poor, Moody's--and stockholders' reports of the companies involved in this investigation.

I. THE HISTORY OF THE NEW ENGLAND SHOE INDUSTRY

The history of the New England shoe industry began the day the Mayflower sailed into Salem, Massachusetts on its second trip to the new land. (1) On a contract of employment with the Massachusetts Bay Colony, Thomas Beard, a shoemaker of St. Martin's, London had come to Salem in 1629 to teach his trade to the settlers and to make shoes for their needs.

The shoes made by Beard and other craftsmen who came later were crude, low-cut, uncomfortable, silver-buckled affairs. (2) They had no rights or lefts and could be interchanged.

When the trade had become sufficiently well-known, colonists made their own shoes in small shops set off from the kitchen. Members of the family assisted in the different chores, the women binding the uppers and the men cutting the leather and attaching the soles. (3)

After roads and settlements had been established, itinerant cobblers wandered from village to village making shoes for the entire family. They carried their tools and leather supplies in their packs. Most of them earned their keep by sharpening axes and knives, pulling teeth, and

1--International Shoe Company. The Story of Footwear, p. 14

2--Harold R. Quimby. The Story of Footwear, p. 14

3--Ibid, p. 18

passing on gossip from the preceding hamlet in addition to shoemaking and repairing.

The supply of material needed for shoe building came from the tanneries of the colonies. Tannery processes were elementary and rough. Hides were soaked and rinsed, and treated with lime to remove hair. They were then laid on bark and kept there for an indefinite period. When the hides were removed, the heavier and thicker skins were used for soles and the thinner, for uppers.

By 1751 the wandering shoemakers had settled down into little shops. The population had increased; consequently, there was a need for bigger working organizations to supply the increased demand.

These early shoe shops usually contained a master shoemaker, two journeymen, and an apprentice who received a long training in exchange for his services.

Whatever industry there was seemed to be concentrated in the Massachusetts and New England area with the cities of Peabody, Lynn and Haverhill dominating the early colonial period.

By 1750 John Adams Dagyr, a Welshman, had introduced a new concept to the shoe industry. In Lynn, Massachusetts he set up the first factory for the production of footwear. (1) His system divided the total construction

into separate and distinct operations, each of which was performed by one worker. His methods were so superior to those prevailing that they were immediately adopted among shoemakers. In fact, Dagyr is generally recognized as having rescued the American shoe industry from English competition. (1)

Upto the middle of the 18th century, shoes were made only by order. When Dagyr introduced his division of labor, manufacturers began to overproduce. Shoes were made for stock. Not only did this keep the workers busy when orders declined, but it allowed the manufacturer to use the shoes for barter purposes. Later these stock shoes were brought to Boston and sold to the general public.

At first, this system of distribution was not too successful. The people were unaccustomed to buying shoes that were not custom made. But gradually this method of sale became an accepted fact in the bigger cities with the result that "sale shoes" began to displace custom boot-making. (2)

Shoemaking tools continued to be very simple hand tools. Soles were attached to uppers by wooden pegs of hard maple. Shoe design was based on sturdiness and long-wearing qualities, rather than style or comfort.

However, the Colonial shoe industry began to meet

1--Ibid

2--Harold R. Quimby. The Story of Footwear, p. 19

competition from England and France. These countries, with their more elegant and better processed shoes, sent over huge amounts of their products. This caused a slump in domestic production. To protect the growing industry, Congress passed a tariff law in 1789. And from that time on, domestic footwear has always been protected by duties on foreign shoes.

With the extension of waterways and the rapid growth of metropolitan areas, production had increased to nearly a million shoes by 1810. (1) New inventions saved working time and helped manufacturers produce better constructed shoes. In 1812 shoe nails were used in place of wooden pegs to fasten soles to uppers. Buttons and shoe-laces were also used to secure the shoe to the foot. Such inventions as the Kimball-Last made possible separate lasts for the right and left feet. (2) The Gilman lathe improved last making by permitting lasts to be graded in sizes. Patent leather and diagram patterns for shoe cutting were introduced; shoe counters were manufactured for stock when previously they had been fitted to the lasts; shoe boxes were first used in 1840 and the edge iron for finishing shoe edges was an early tool improvement.

But the year 1846 was an important year for the

1--Gill Publications. Three Hundred Years of Shoe and Leather Making, p. 7-12

2--International Shoe Company. The Story of Footwear, p. 20

shoe industry. It was in that year that Elias Howe, Jr., invented his sewing maching which eliminated laborious hand stitching. "He changed the process of sewing by putting the eye of the needle in the point..." (1)

Shoemaking began to spread out of the New England states to other areas, such as New York state and the Ohio River Valley. More developments in machines took place. Hide splitting and sole cutting machines were invented, and horsepower was applied to machinery.

In spite of all the developments in both tools and technique, no satisfactory method of sewing soles to shoes existed until 1858, when Lyman Blake invented a device that did precisely that thing. His achievement was a landmark in shoe construction--it changed a method of shoemaking that had remained basically unchanged since 1400 B.C.

Unfortunately, Blake was only an inventor and not a publicist. He found it difficult to interest shoemakers in his mechanical stitcher. However, Colmel Gordon McKay, a promoter and organizer, bought the machine from Blake for \$50,000. McKay spent hundreds of thousands of dollars perfecting the machine but still could not dispose of it. Manufacturers were loathe to upset the long tradition of shoemaking and, what is more important, could not invest the large amount of capital needed to buy the apparatus. In

fact, McKay became desperate enough to offer the machine to a syndicate for \$250,000. (1) Fortunately for him, the syndicate turned him down.

The Civil War was McKay's salvation. Shoe manufacturers received huge orders for army shoes. To cope with the increased demand and the limited amount of workers, manufacturers agreed to try out McKay's machine on a royalty basis. The leasing system was successful and spread rapidly throughout the industry.

Once McKay had introduced his machinery, competing equipment was brought on the market. Charles Goodyear helped promote the welting machine which bears his name. The welt preserved the shape of the shoe and made it much finer in quality. (2) Goodyear, backed by James Hanan, a New York shoe manufacturer, formed the Goodyear Welt Shoe Machinery Company.

J. Ernest Matzeliger, of Dutch Guiana, also entered the machinery field when he built his "Niggerhead Laster," a machine that pulled the upper part of the shoe over the last and held it in place while the rest of the shoe was attached. Matzeliger's company was called the Consolidated Lasting Company which formed, somewhat later, the parent company of the United Shoe Machinery Corporation.

Meanwhile, McKay had also developed the technique

1--International Shoe Company. The Story of Footwear, p. 21
2--Fortune Editors. Understanding the Big Corporations, p. 119

of having a crew of highly skilled mechanics servicing all his machines in case of breakdown--both to inspire confidence in his machinery and to keep his royalties, based as they were on production, from stopping.

This system worked very well. It permitted new manufacturers to enter the field with little capital for machinery and assured them of the best equipment without any cost for depreciation, mechanical breakdown or obsolescence.

Naturally the other two companies, Goodyear and Consolidated, employed the same approach. Competition was sharp. Therefore, Sidney Wilmot Winslow, who controlled Consolidated, suggested a merger of the three companies. Goodyear Welt, controlled by Hanan, merged with Consolidated. Later Colonel McKay merged with the other two. The final merger took place in 1899, and with that consolidation United Shoe Machinery Corporation became the colossus of shoe manufacture.

By 1911 United had managed to secure almost all of the shoe machinery business. So large had it become, and so powerful, that the United States government instituted a trust suit against the company. The government lost on the grounds that the companies forming United were not competitive, each having had separate patents and machinery before the merger. But in 1915 the Attorney-General of the United States tried again under the Clayton Act and was par-

tially successful when he forced United to lease its machinery by machine units instead of groups. (1)

However, the company continued to build up its strength in the field by swallowing up any independent patents on shoe machinery and by excellent service to its clients. Every user of United machinery had a serviceman within easy call. In fact, some of the larger concerns had United men stationed permanently on the premises. Furthermore, United managed to lower the cost of its machinery to the point where the manufacturer could pay for the leasing even though the cost of development was greater to United than the return from royalties--for the first few years of operation. Actually, however, the longer the machine is run and the more standardized it becomes, "the closer the royalty income approaches the status of net income." (2)

On the credit side, United has maintained its position because it developed modern shoe machinery at a reasonable cost to its clients and made this machinery available to anyone who could pay the royalties.

Before the formation of United Shoe Machinery Corporation, the shoe industry itself had become nationalized. Upto 1860 the history of the shoe industry could not be distinguished from the evolution of New England shoemaking. With the impetus provided by the Civil War, other

areas began to contribute to the boot and shoemaking trade. Plants operated in Rochester, Buffalo, New York, Cincinnati, Chicago, Milwaukee, Detroit, St. Louis and as far west as San Francisco. Between 1900 and 1946 new discoveries were made for the treatment of leather, regional shoe associations sprang up, stitching and heeling machinery was improved, the Compo method of cementing shoes together was developed as competition for the many processes controlled by United Shoe Machinery, consumer consumption of shoes was increasing, playshoes were introduced to the public, and shoe sales reached an all-time high by 1946.

Finally, shoe manufacturing took on several distinct systems of making shoes. Some of the methods are: the Welt shoe in which two seams, the inseam and the outseam unite all the main components of the shoe; the Cement shoe which cements the entire shoe together without the use of stitching; the McKay shoe which utilizes a stitch passing through the outer and inner soles; the Turn shoe which is made inside out and then turned for the finish; the Stitch-down shoe which turns out the edge of the upper for stitching to the sole. Other processes, such as the Silhouwelt, the Littleway, Screw and California are not in as great a use as those mentioned above. (1)

TABLE I: HIGHLIGHTS OF THE SHOE INDUSTRY

- 1626--Peter Minuit of Manhattan devised a horse-drawn machine for the tanning of hides.
- 1629--Thomas Beard landed at Salem.
- 1630--Francis Ingalls, of Lincolnshire, England, the first tanner in the land, settled in Lynn, Massachusetts.
- 1638--The Eversteen Brothers built the first tannery in New York.
- 1648--The Massachusetts Bay Colony granted a charter of incorporation to the "Shoemakers of Boston."
- 1688--The legislature of Massachusetts passed laws separating tanning from currying and shoemaking.
- 1730--Pointed toes for women became the style.
- 1750--John Adams Dagyr set up his factory in Lynn.
- 1772--Wooden pegs for attaching soles to uppers were coming into vogue.
- 1789--Congress passed a tariff law protecting the domestic industry of the new nation.
- 1792--Shoe laces were used in place of buckles to fasten shoes to the feet.
- 1793--The custom bootmaking period was now superseded by shoes for sale.
- 1794--The first retail shoe store was opened in Boston.
- 1796--The first labor strike occurred in Philadelphia when shoemakers asked for and received an increase in wages.
- 1809--The first leather splitting machine was invented in Newburyport, Massachusetts.
- 1812--Shoe nails supplanted wooden pegs (introduced by Elisha Hobart of South Abington, Massachusetts).
- 1815--The Blanchard lathe for making lasts was developed in Sutton, Massachusetts.

TABLE I: HIGHLIGHTS OF THE SHOE INDUSTRY (CONT'D)

1822--The first lasts making rights and lefts were invented in Philadelphia.

In that year patent leather was also introduced as a shoe covering.

1827--Chrome ore was utilized in tanning.

1832--Diagram patterns for cutting shoes were used for the first time in New England.

1835--An obscure tanner from Woburn was the first to use steam power in a tannery.

1842--The Candee Rubber Company of New Haven, Connecticut was the first to use Charles Goodyear's rubber process for the manufacture of rubber shoes.

1845--The manufacture of boot and shoe counters independently of the finished product had its beginning in Stoughton, Massachusetts. John Gilmore invented his sole-leather hardening machine.

1850--A machine for fleshing and unhairing hides was invented.

1855--Horsepower was applied to shoe manufacturing for the first time in a Marlboro, Massachusetts factory.

1858--Lyman Blake of Abington, Massachusetts invented his machine for sewing soles to uppers.

The boot and shoe industry was the largest business in the United States.

1861--McKay introduced his leasing system to the shoe industry.

1865--Rights and lefts were made in volume for the soldiers of the Civil War.

1874--Goodyear developed his welting machine.

1876--William L. Douglas started the first chain store retail outlet for his manufactured products.

1877--Edging and heel trimming machines were developed.

TABLE I: HIGHLIGHTS OF THE SHOE INDUSTRY (CONT'D)

- 1880--Half sizes in shoes became popular among manufacturers.
- 1883--Jan Ernest Matzeliger invented his lasting machine.
- 1886--A combined shoemaker's pincers and hammer machine was produced.
- 1892--A curved needle machine sewed welts to a shoe while it was on the last.
- 1895--Thomas G. Plant of Boston developed his Wonder Worker machines which both sewed and heeled.
- 1899--The United Shoe Machinery Corporation was formed.
- 1900--Lasting and pull-over processes were developed.
- 1904--Better heeling methods were also developed.
- 1907 to the present--Folding, eye-letting, clicking and lasting operations, stock fitting patterns, sewing and stitching developments, cement sole stitching, the introduction of the playshoe and even the use of television for advertising all played their part in the history and evolution of the national and New England shoe industry.

Source: Harold R. Quimby. The Story of Footwear, p. 17, 22, 23, 27-40, 46-52.

II. THE ECONOMIC IMPORTANCE OF THE NEW ENGLAND SHOE INDUSTRY

Although New England has consistently dominated the shoe manufacturing field since its beginning in 1629, this leadership began to decline by the end of the Civil War. (1) New manufacturers were entering the field. Competition was now possible since centers of population were shifting out of the eastern seaboard. Furthermore, the mechanization of manufacturing had proceeded at a rapid rate; factory labor was more plentiful, and regional markets had begun to develop. Another prime factor aiding the development of the national shoe industry was the nearness of non-New England producers to their supply of raw materials.

By the end of World War I the significance of other production had so seriously cut New England's lead that it only contributed 48% of the national output. (2) Government orders for military shoes during the war stimulated the further industrial development in other areas.

National development made further inroads on New England production between 1919 and 1924. Production figures dipped to a new low of only 34% of total United States

1--Federal Reserve Bank of Boston. The Outlook for the New England Shoe Industry, November, 1948, p. 2
2--Ibid

output. However, from that time on until 1947 production usually "fluctuated closely with national output." (1)

Just before World War II another shift in New England production took place; Massachusetts had begun to lose ground within its own sphere to New Hampshire and Maine. (2)

In spite of its tenuous leadership nationally, the shoe industry in New England occupies a relatively strong position among regional manufactures. It is the fourth largest industrial employer in the region. (3) In fact, in some cities, shoe plants absorb over 70% of the industrial working potential. Subsidiary fields such as the last, pattern, lining, trimmings, eyelet, shoe nails and tack industries, provide additional employment (about one-fourth of those employed directly in the shoe industry). (4) In January 1949, 80,000 workers were engaged directly in the shoe industry; 20,000, in allied trades. (5) Moreover, high employment in the shoe industry means greater purchasing power for the New England communities; the reason--the region is a converting area, importing all its raw materials, processing them and shipping them out for national consumption. Its profits then are based on the resi-

1--Ibid

2--Ibid

3--Maxwell Field, Executive Vice-President, New England Shoe and Leather Association. Boston Herald, January 30, 1949.

4--Boston Chamber of Commerce. The Shoe Manufacturing Industry of New England, p. 8-9

5--Maxwell Field. Boston Herald, January 30, 1949.

TABLE II: INDUSTRIAL STAGES OF SHOECRAFT IN AMERICA

	<u>1629-1650</u>	<u>1651-1750</u>
Market developed by	Itinerant worker	Personal activities of shoe worker and family
Shoes produced by	Hand. Itinerant shoe workers traveled from home to home.	Hand. Small kitchen shops with shoe worker and members of own family
Tools used	Hand tools--awl, hammer, needles, thread, pegs, knives	Hand tools--same as preceding period
How employees were paid	Board, lodging and wages	Master shoe worker made own finished shoe prices
Shoes made principally for and sold direct to	Individuals	Individuals
Manufacturing developments	Shoes made over hand hewn lasts by use of simple hand tools. The first American guild, the "Shoemakers of Boston" was granted a charter of incorporation by the Colony of Massachusetts Bay on October 18, 1648	Shoes were hand made. Shoemaking tools were simple. Design confined to simple patterns.
Style developments	Colonial buckle period. Low heels on men's, women's and children's shoes	Early American colonists learned to make moccasins which were exported to England during the middle of the 17th Century
Movement of manufacturing	New England	New England and Atlantic Coast to Virginia

TABLE II: INDUSTRIAL STAGES OF SHOECRAFT IN AMERICA (CONT'D)

	<u>1751-1800</u>	<u>1801-1850</u>
Market developed by	Expansion of local trading area	Extension of waterways
Shoes produced by	Hand. Small home shops with master shoe worker and journeyman	Hand. Small home shops with master shoe worker and journeyman
Tools used	Hand tools--same as those used in the preceding periods	Hand tools--same as those used in the preceding periods
How employees were paid	Wages	Wages
Shoes made principally for and sold direct to	Auction market	Wholesalers
Manufacturing developments	John Adams Dagyr, father of American shoemaking, operated first successful factory in 1750. Most shoes, however, were made in kitchen shops	Most shoes were hand pegged, hand nailed or hand sewed prior to and during this period. Sewing machine was invented in 1846 by Elias Howe, Jr.
Style developments	Brogue type of shoe invented in Ireland about 1790	Blucher type of shoe created by Gen. Blucher in 1810. D'Orsay pump invented by Count D'Orsay in 1838. Gore shoe invented by J. Sparkes Hall in 1836
Movement of manufacturing	Eastern seaboard in addition to New England and Atlantic Coast to Virginia. First retail shoe store opened in Boston in 1794	Eastern seaboard in addition to New England and Atlantic Coast to Virginia

TABLE II: INDUSTRIAL STAGES OF SHOECRAFT IN AMERICA (CONT'D)

	<u>1851-1875</u>	<u>1876-1900</u>
Market developed by	Extension of high-ways	Extension of rail-roads
Shoes produced by	Hand tools and machines. Con-tractor workshops. Workers operated in teams	Machines. Manufac-turer workshops
Tools used	Hand tools and foot power	Foot power machines
How employees were paid	Team work rates	Team work rates
Shoes made princi-pally for and sold direct to	Wholesalers	Wholesalers and retailers
Manufacturing developments	McKay shoes were first made in Lynn, Mass., in 1861. Welt sewing machine was developed and perfected under the direction of Charles Goodyear, Jr.	Half-sizes in shoes were introduced in 1880. Standard last measurements were determined in 1887
Style develop-ments	Balmoral type of shoe originated by by Prince Albert in 1853	Many shoemaking and leather refinements introduced during this period. Be-ginning of machine age which permitted new and greater style developments
Movement of manufacturing	New York state and Ohio River Valley in addi-tion to the areas already mentioned	Missouri, Illinois, Michigan and Wis-consin in addition to the areas al-ready mentioned

TABLE II: INDUSTRIAL STAGES OF SHOECRAFT IN AMERICA (CONT'D)

	<u>1900-1945</u>
Market developed by	Expansion of world markets
Shoes produced by	Machines. Manufacturer workshops
Tools used	Power machines
How employees were paid	Piece work and hourly rates
Shoes made principally for and sold direct to	Retailers
Manufacturing developments	Shoemaking machines leased on royalty basis to shoe manufacturers
Style developments	The greatest era of style development of the industry. Introduction of many new colors, leathers, fabrics and designs to coordinate with dress fashions
Movement of manufacturing	Pacific Coast in addition to the areas already mentioned

Source: Harold R. Quimby. The Story of Footwear, p. 6

due left from the cost of conversion. In support of this the Federal Reserve Bank of Boston had this to say in its November, 1948 bulletin:

The shoe industry has provided New England as a whole with an important source of purchasing power to finance its imports of commodities and services from other regions of the United States and abroad. In 1947 net exports of shoes from New England amounted to approximately \$400,000,000. About \$250,000,000 were required to finance the net imports of hides and leather, leaving roughly \$150,000,000 available to meet New England's general needs.

Regardless of its importance regionally--to the states, to the workers and to New England finance--and its leadership over all shoe-producing areas, there has been a decline in the contribution of New England shoe production for national consumption. From 1935 to 1942 shoe production remained constant at 35% of national output. In 1943 production fell off proportionally more than total production. No doubt, this was due to heavy losses of skilled labor to the armed services and to the booming war industries with their more attractive wages. Output, as a result, amounted to only 33% of national production.

With the end of the war and increased consumer spending, production jumped to 36% in September, 1946. In October all production fell off, with New England output slumping more rapidly than any other area. By 1947 total output had shrunk to 31%. "The regional production was 21.9% lower than the 1946 volume as compared with a national

shrinkage of only 11.5%." (1)

The pattern of decline has manifested itself most strongly in men's and women's shoes, products in which New England has been a long-time leader. In some years the decline has been as much as 40% in men's shoes and 38% in women's shoes. (2)

Some of the reasons for this decline are:

- 1--The construction of western plants near their distributing areas.
- 2--The heavy taxation which the New England industry must bear in comparison to no taxes or low taxes for competitors in other areas.
- 3--The high cost of transportation both for raw materials and finished goods.
- 4--Poor merchandising policies on the part of the manufacturers themselves. (3)

1--Federal Reserve Bank of Boston. The Outlook for the New England Shoe Industry, November, 1948, p. 2
 2--Ibid
 3--Boston Chamber of Commerce. The Shoe Manufacturing Industry of New England, p. 12-13

TABLE III: PERCENTAGE OF SHOE PRODUCTION BY STATES

STATE	1899	1904	1909	1914	1919	1921	1923
<u>United States</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Massachusetts	47.1	44.3	41.4	39.4	35.3	30.0	25.6
Maine	4.9	3.8	3.3	5.4	5.8	5.9	5.0
New Hampshire	9.7	9.1	9.0	8.4	6.9	5.2	6.4
New York	8.9	9.8	10.0	13.3	19.0	22.3	21.6
Pennsylvania	5.7	5.5	6.2	7.6	7.1	6.6	5.2
Ohio	6.4	7.5	6.6	6.1	5.4	5.9	5.0
Illinois	2.8	2.5	2.9	2.8	3.2	4.2	(18.5)*
Missouri	3.8	6.8	9.1	7.1	8.0	9.4	
Wisconsin	1.6	1.8	2.6	2.9	3.4	3.4	4.8
Other States	9.1	8.9	8.9	7.0	5.9	7.1	6.9

STATE	1925	1927	1929	1931	1933	1935	1936
<u>United States</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Massachusetts	22.3	24.0	23.4	24.0	21.4	19.6	20.3
Maine	5.2	4.3	4.3	4.7	5.7	6.6	6.8
New Hampshire	5.5	6.0	6.9	7.5	6.0	7.8	8.1
New York	22.5	22.9	21.7	23.1	22.0	21.7	20.5
Pennsylvania	5.2	4.9	4.8	4.4	5.4	5.7	5.7
Ohio	4.6	3.8	3.3	3.1	4.0	4.3	4.1
Illinois	*(22.2)	7.3	7.5	7.2	7.4	7.0	6.7
Missouri		13.0	13.3	12.3	12.5	11.3	10.8
Wisconsin	5.2	4.9	4.8	4.1	5.4	4.4	4.1
Other States	7.3	8.9	10.0	9.6	10.2	11.6	12.9

STATE	1937	1938	1939	1940	1941	1942	1943
<u>United States</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Massachusetts	19.5	19.2	19.5	18.9	18.5	19.0	18.6
Maine	6.1	6.9	6.8	6.5	6.5	6.0	5.5
New Hampshire	8.1	9.4	9.0	9.2	9.1	9.5	8.6
New York	20.2	18.0	16.6	17.7	18.0	18.4	19.6
Pennsylvania	6.3	7.0	7.7	8.9	9.2	8.5	8.2
Ohio	4.2	4.2	4.1	3.7	3.3	3.4	3.1
Illinois	7.0	6.8	7.5	7.1	7.2	7.8	7.7
Missouri	11.1	10.8	11.5	11.3	12.0	11.6	11.7
Wisconsin	4.0	3.9	3.9	3.9	3.9	4.2	4.3
Other States	13.5	13.5	13.4	12.8	12.3	11.5	12.2

*Bracketed figures combine totals for both Illinois and Missouri.

TABLE III: PERCENTAGE OF SHOE PRODUCTION BY STATES (CONT'D)

STATE	1944	1945	1946	1947	1948
United States	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Massachusetts	19.0	19.6	20.7	17.0	17.3
Maine	5.3	5.6	6.1	6.0	5.3
New Hampshire	8.5	8.3	8.2	8.0	7.7
New York	20.7	20.8	19.0	18.0	18.6
Pennsylvania	7.9	7.8	8.2	8.0	8.6
Ohio	3.1	3.3	3.3	4.0	3.8
Illinois	7.4	6.9	6.6	7.0	6.6
Missouri	11.7	11.6	11.4	14.0	13.3
Wisconsin	3.8	3.6	3.5	4.0	3.7
Other States	11.9	12.3	13.0	14.0	14.6

Source: National Shoe Manufacturers Association. Facts and Figures on Footwear, p. 7
 Department of Commerce. Facts for Industry,
 March 10, 1949.

III. RESEARCH BY THE INDUSTRY

A. Patents and Processes

1. Manufacturing Procedures

Probably the two most fundamental contributions to large-scale production in the shoe industry have been Elias Howe's sewing machine and Lyman Blake's mechanical stitcher. These machines were developed during an era (the nineteenth century) when the shoe industry was expanding at its most rapid pace--in keeping with the industrial expansion of the United States. Though there have been many improvements in shoe machinery, ever since the origination and growth of the leasing system (see Chapter I, page 13), the development of mechanical apparatus has remained peculiarly outside of the shoe industry itself. Hence, apart from machine evolution, the modern-day shoe has been the result of improvements in tanning, cutting and assembling. (1)

Shoe manufacture in the early Colonial period was crude. The shoemaker, working at a small bench, had only crudely tanned leather and simple tools such as his awl, knife and needle. In two days, by working diligently, he could produce a single pair of misshapen shoes. This, of

1--Indeed, this evolution has also been helped by modern machinery, but the author wishes to limit his statement only to development within the shoe industry itself.

course, is in striking contrast to the average ten pairs per day per worker of modern industry. (1) In any case, an explanation of how a shoe is made will illustrate better the intricacies of shoe manufacturing.

The basic source of leather is the domestic cattle supply. Each year the shoe industry tans the hides of 22,000,000 cows. To tan, color and finish high quality leathers dyes, tannin, coal tar dyestuffs, rare wood extracts and "other ingredients" are utilized by skilled tanners. (2) Once the leather has been finished--tanning sole leather requires about four months, uppers about sixty days--it is then sorted for trimming and grading. After it has been machine-measured for thickness, it is ready for shipment to the shoe manufacturers. Grading involves classification by weight and by type, upper or sole. Though the industry relies mainly on the hides of cattle, more expensive skins, such as goat, sheep, reptile and horse, are also used.

The first operation by the shoe manufacturer is to sort and grade the leather and then cut it into small sections for assembling and stitching. (3) The upper leather is cut into various sections such as the vamp, quarter and tongue. Usually the cutting is done by a razor-

1--National Shoe Manufacturers Association. Shoemaking in Action, p. 4

2--Ibid, p. 1

3--Ibid, p. 2

edged steel die or "clicking" die. (1) For finer grades of leather or for better shoes with a limited volume, the cutting is done by hand. Linings are also cut in this department.

In the upper fitting department the uppers are assembled together with the linings and stitched to make a complete upper. Other processes in this room include skiving, a method of smoothing uppers, perforating tips, making button holes, and "lacing" eyelets to hold the uppers to the lasts during the latter stages of completing the shoe.

Leather soles are cut from a heavier leather than the uppers; hence, the operation is customarily the work of another department called the stock fitting room. Because of the toughness and rigidity of the sole leather, heavier machinery than that required in upper cutting is necessary. After the cutting, the soles "are graded for texture, thickness, color and weight." (2) Those sections of the hide which are not used for the outsole are then cut into insoles, counters, welting, heels and box toes. (3)

In the lasting operation the upper and lining are stretched over a wooden last and fastened to it. This is a delicate operation in which the upper must be pulled tight over the last. Usually this is done by a pull-over

1--Ibid, p. 2

2--Ibid, p. 5

3--United Shoe Machinery Corporation. How Modern Shoes are Made, p. 15

machine to eliminate human error. When the job is completed, the outsole is attached to the shoe bottom. This operation is known as "bottoming." (1)

After the outsole has been bottomed, the heel is attached to the shoe. This is done in the making room. Here too, the heel and sole are trimmed. Leather and rubber heels are attached by means of nail driving machinery.

In the finishing room the soles are waxed and polished. The lasts are finally removed and the shoe bottoms branded. Minor operations such as the insertion of heel pads follow the branding, and after an inspection, the shoes are sent on to the treeing and packing departments. There the shoes receive a cleaning, dressing and packaging prior to shipment.

2. Nomenclature

Of the three fundamental methods of bottoming or attaching the outsole to the upper -- the sewed shoe, the cemented shoe and the nailed shoe -- there are many different processes in each group: (2)

Cemented Shoes

Littleway Staple Lasted Cement Shoe
Tack Lasted Cemented Shoe
Cement Lasted Cemented Shoe
Skeleton Insole Cemented Shoe
Silhouwelt and Cement Welt

1--Ibid, p. 16

2--Ibid, p. 17

Sewed Shoes

Goodyear Welt Shoe
 Goodyear Turn Shoe
 McKay Sewed Shoe
 Stitchdown Shoe
 Littleway Lockstitch Shoe
 Uco Lockstitch Shoe
 Pre-Welt Shoe
 Skeleton Insole Sewed Shoe
 Littleway McKay Sewed Shoe

Nailed Shoes

Nailed Shoe (Loose Nails)
 Standard Screw Shoe
 Pegged Shoe

B. Styles1. Introduction

The style factor is the most influential single element in shoe manufacturing--both for women's and men's shoes. Shoe styles have been known to become unfashionable even while the manufacturer was producing the shoes. Other fashions have lasted hundreds of years; some have only managed to survive from fashion period to fashion period. Many styles are directly borrowed from the ancients; many are the doubtful creations of modern designers.

Because of the early location of the shoe industry in New England, the styling of shoes went hand in hand with production. New England never relinquished this leadership, particularly in the high-priced men's shoe field. However, it has lost some ground in the last few years. (1)

In the women's field where style is the causa

1--Federal Reserve Bank of Boston. The Outlook for the New England Shoe Industry, November, 1948, p. 7

belli, New England leads the pack. Just after the Civil War shoe designing developed into an important factor in production. Emphasis shifted from durability and quality to novelty. (1) Business increased as shoes went out of style. Furthermore, skilled workers, needed for these non-staple lines were available in New England.

High quality as well as style has also been a New England tradition. According to Consumers Reports for 1949, six out of the top twelve shoes tested for quality were made by New England manufacturers. Furthermore, these shoes either sold below those produced elsewhere, or equaled the lower price ranges of the more expensive types. This tendency seems to be true also in the women's shoe division. (2)

2. The Different Styles (3)

The balmoral shoe originated in 1853 at Balmoral, Scotland among the dandies of Prince Albert's court. The shoe features a closed throat (see illustration), a whole vamp and either five or six eyelets. The toe was generally pointed and thinner uppers were used to make the foot appear smaller for the tight-bottom trousers which were

1--Edgar M. Hoover, Jr. Location Theory and the Shoe and Leather Industries, p. 175

2--Federal Reserve Bank of Boston. The Outlook for the New England Shoe Industry, November, 1948, p. 7

3--National Shoe Manufacturers Association. Style in Shoes, p. 6-19

then the style on the continent. Today the balmoral is a narrow shoe with accentuated pointed toes, used successfully in both men and women's models. (1)

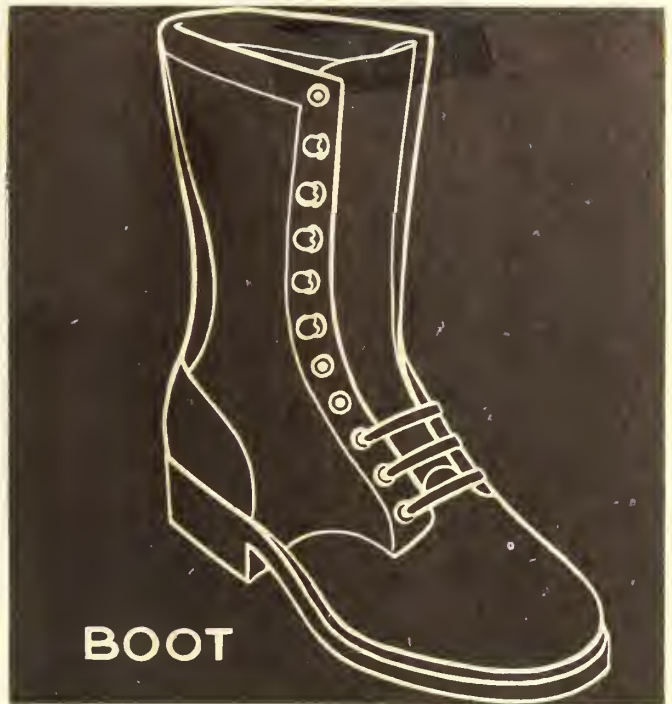
The blucher pattern, though earlier models existed as far back as 1600, is primarily a military design. It was named after General Leberecht von Blucher, a Prussian general and the sponsor of this shoe. It was higher than the low cut shoe worn by the military men of the early 1800's and seemed to be more satisfactory--for fighting purposes. It has existed with some variation to the present time. The blucher pattern is a basic one for "town, sports, play and leisure shoes of regulation oxford height; work and outdoor shoes and field, army, navy and aviation boots." (2)



1--Ibid, p. 6

2--Ibid, p. 7

The boot design is one of the earliest known patterns of shoe construction. Boots were known to the Egyptians of 4500 B.C.; and to the Etruscans of the fifth and sixth centuries B.C. Certainly the martial boot of brass flourished in the civilizations of the Greeks and Romans.



Through the centuries boots became the badge of class. They reached their most elegant stage in the court of Charles II, King of France (832-877); the courtiers wore boots with lace-trimmed tops. By the fifteenth century boots had evolved to the right and left stage, and some had spurs and long, upturned toes. Boots became the military shoe -- from the high-heeled, red leather boots of the knights to the rough-finished combat boot of the World War II infantryman. In modern times boots have also been used for fishing, riding, aviation, trapping, hunting and mining. Generally boots are unlined and made of water-resistant leathers. (1)

According to an old Irish legend the brogue was first made for a distressed maiden by a fairy queen and her

court. Originally it was a one-piece shoe of crudely-tanned leather. It first found favor among the Irish. Later, in Scotland, it developed into a heavy, water-proofed affair called the brog. Modern shoe manufacture further cor-



rupted the style, using the name for a highly perforated shoe which is usually a wing-tip type of heavy, grained leathers. (1)

In 1838 Count Alfred Guillaume Gabriel D'Orsay, a soldier of fortune, invented the V-shape cut on a pump and from him came the style known as D'Orsay. The pump is novel in that the D'Orsay cut is supposed to prevent gaping of the sides which are cut into a V below the throat of the pump to gain this effect. The D'Orsay has had many variations -- in anklets and straps, collars and appliques



without affecting its practicability. (1)

The Ghillie first became popular in more modern times when the fashionable Prince of Wales, now the Duke of Windsor, popularized the style. However, the



Ghillie shoe was a well-known type in Scotland about 1890. Its name came from a scottish word "gillie" or young serving boy. Later it was changed into its present spelling. The ghillie shoe itself is distinguished by its lacing rather than any particular type of leather or special appearance. There are usually three slots through which a leather thong is threaded, thus eliminating the necessity of eye-lets, hooks or buttons. (2)

The gore or elastic shoe was first produced in 1836 by J. Sparkes Hall, Queen Victoria's bootmaker. At that time the webbing of

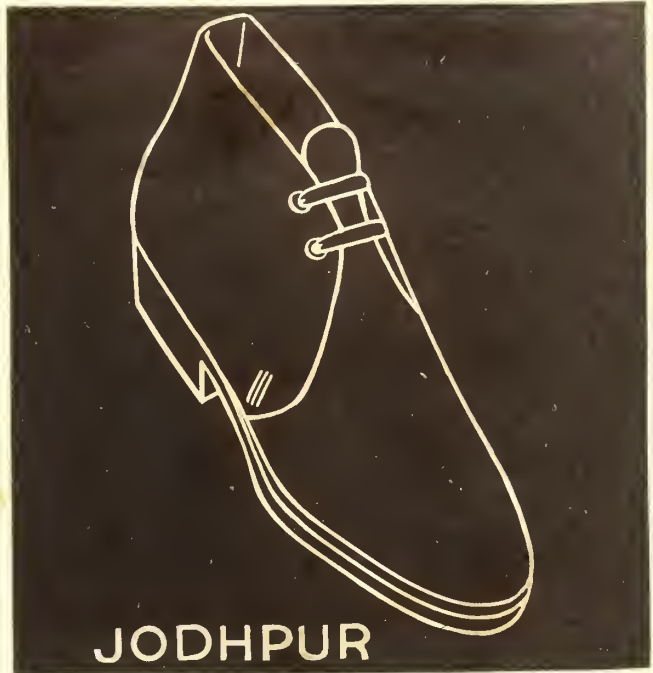


1--Ibid, p. 10

2--Ibid

the shoe was a combination of wire and rubber. Later after vulcanization, many American companies were able to produce a more elastic webbing. Gore shoes, though not as popular as other women's models, still have wide-spread acceptance in this country. (1)

Reputedly the jodhpur was designed in ancient Persia. In 1865 it was brought to the European continent by Anglo-Indian soldiers as a special type of shoe used for riding and more particularly for polo. However, this shoe was



well-known to western civilization about 1624 in a more modified form. The present jodhpur is an extremely popular type in men's styles, especially as military dress shoes. (2)

Actually the Indian moccasin was the first of American -styled shoes.

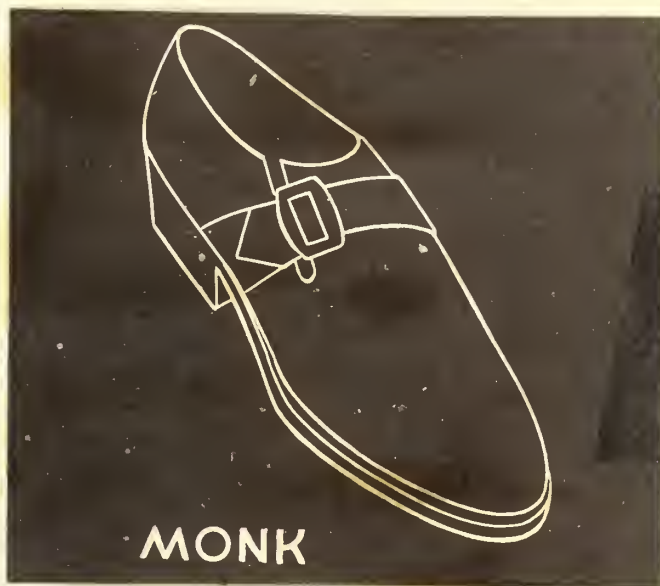


1--Ibid, p. 11

2--Ibid, p. 12

It was skillfully made and gave the hunter a great deal of protection. Since then, it has developed into a useful sports and outdoor shoe, and its styling has been incorporated into many of the more rigid shoes, particularly in the blucher design. (1)

The monk shoe is primarily a military style shoe, but originally it was invented by an Alpine monk of the fifteenth century. The buckles made the shoe easy to put on and keep on and its broad sturdi-



ness and simplicity had a definite masculine appeal. However, with some modifications it has been used in the women's field. (2)

The etymology of the mule, the popular household slipper, was derived from the early Sumerians who distinguished outdoor from in-



1--Ibid, p. 13

2--Ibid, p. 14

door slippers by the word "mule." The mule became popular in the Elizabethan age when fine ladies used a mule to cover their elaborate shoes from dirt. Since then it has not changed much in appearance, maintaining the same vamp, sole and heel. (1)

The oxford, first used in Oxford, England in 1640, is actually not a type or pattern, but rather a descriptive catch-all for any low-cut shoe. The oxford came into favor because of the



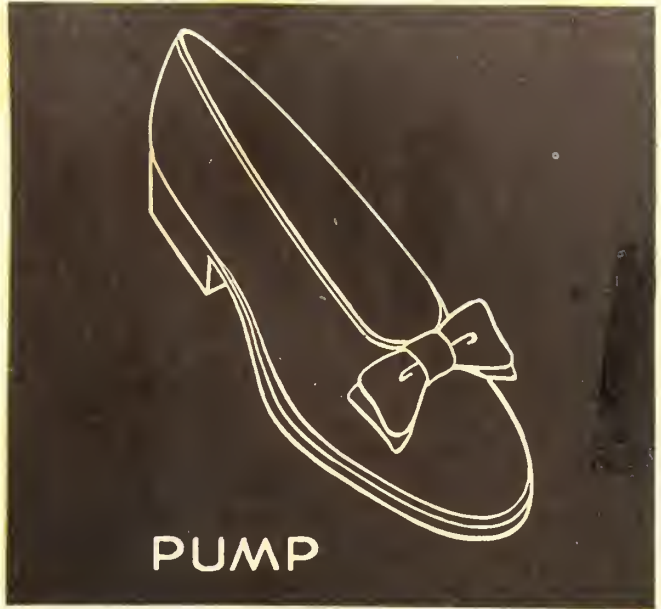
greater foot freedom and coolness which it offered over the boot or high-cut shoe. In the twentieth century it became the most popular type of footwear. Two distinct types have now developed -- "the plugged oxford which has a wide base at the throat in the form of an inverted plug," and the saddle shoe which has contrasting leather. The saddle has become standard footwear with the American adolescent and the younger college undergraduate. (2)

The origination of the pump has never been definitely settled. Indeed, it is one of the oldest of shoe

1--Ibid, p. 14

2--Ibid, p. 15

styles. The modern version was primarily used as a dancing shoe for men. Later, by means of special lasts, it was adapted to women's shoes. Although simple in design, it is difficult to make a pump with good fitting qualities. This



is due to the long top line which tends to gap as the wearer walks. Special lasts have somewhat remedied this gaping though not completely. (1)

Of all the footwear of modern society the most widely-used shoe is the sandal. It is the earliest tyoe shoe of which there is any record; a sandal was discovered near Cairo, Egypt dating back more than 4000 years. Early sandals were made of



rushes or plants. Later thongs were used to secure the sandal to the foot. With the passing of centuries, new

developments changed the outline of the sandal; heels were added, soles thickened and straps were attached. But the basic comfort of the sandal, the feature which made it so desirable, was never altered. Today sandals are used for beachwear, sports, hiking, and dress affairs. There has been a wide range of materials used in its composition such as leather, cork, wood, rubber and even rope. (1)

The shawl tongue shoe was first worn by Greek women athletes in 100 B.C. It first became acceptable on a large scale in seventeenth century England where it was designed to simulate the high boots of the upper class. In Scotland it



was developed into a utilitarian shoe. About 1925 the Prince of Wales made it fashionable when he introduced the shawl shoe with his highland kilts. It never has been too popular in the United States, though many American women have accepted the shawl attached to a blucher type of shoe. (2)

Though not a basic type of footwear, and a descriptive word like oxford, the strap was first introduced

1--Ibid, p. 16

2--Ibid, p. 18

on the sandal. In all of its long history its primary usage was for attachment purposes. Later with the development of style in the shoe industry it took on a new aspect, that of decoration. Usually straps adorn any of the basic styles mentioned in preceding pages--sometimes in series of twos or threes. (1)



3. The Development of Lasts

Until the invention of a lathe in 1815 by Thomas Blanchard of Sutton, Massachusetts, shoe lasts were whittled from wood in the general shape of the foot. The shoes which were fitted over these lasts naturally were irregularly made, binding or constricting the foot of the wearer. At first Blanchard's lathe was used primarily for making gun stocks, but later was adapted to last making. However, the Gilman lathe was more widely-used because it permitted the machinist to grade the sizes of the lathe. The original Blanchard last could turn out only two gun stocks or irregular lasts per hour; modern lasting machines can turn

TABLE IV: BASIC TYPES OF SHOES

<u>NAME</u>	<u>TYPE</u>	<u>ORIGIN</u>	<u>WORN BY</u>
Balmoral	A closed throat lace shoe	Originated by Prince Albert in 1853	Men, Women & Children
Blucher	An open throat laced shoe	Sponsored by General von Blucher as an army shoe in 1810. Previously worn in 16th and 17th centuries	Men, Women & Children
Boot	Footwear that has a top reaching above ankle	Coeval with history of man. Used as early as 600 B.C.	Men & Boys
Brogue	Heavy waterproof shoe with large perforations	Originated in Ireland in about the year 1790	Men
D'Orsay	Pump with V-cut top side line	Invented by Count D'Orsay, France, in 1838	Women
Ghillie	Features unique slotted front lace	Originated in Scotland in ancient Gaelic times	Women
Gore	Features elasticized side or front	Invented by J. Sparkes Hall, London, in 1836	Men & Women
Jodhpur	Two-eyelet ankle high boot type	Designed centuries ago by Persians	Men & Women
Moccasin	Inserted circular tongue attached to one-piece vamp	Invented by American Indians	Men, Women & Children
Monk	Three piece upper with side buckle	Originally worn by Alpine monks. Conceived centuries ago	Men & Women

TABLE IV: BASIC TYPES OF SHOES (CONT'D)

<u>NAME</u>	<u>TYPE</u>	<u>ORIGIN</u>	<u>WORN BY</u>
Mule	A high heel slipper with no counter or quarter	Worn as early as 1600 when heels were introduced. Originally the "pantofles" designed to protect the fine shoes from dirt; also worn for bedroom slippers	Women
Oxford	A broad descriptive term usually applied to lace shoes with three or more eyelets, balmoral and blucher	Origin credited to Oxford, England, 300 years ago. At that time a straight lace shoe	Men, Women & Children
Pump	Lowest cut of all shoes	Used for centuries. Modern version redesigned as dancing slipper in 1906	Men, Women & Children
Sandal	Low heeled open shoe	Earliest type of footwear. Designed centuries ago by Egyptians. Coeval with history of man	Women & Children
Shawl Tongue	Sometimes called "Kiltie." Has long folded slashed tongue covering lacing	Worn as early as 100 B.C. by Greek women athletes	Women
Strap	A broad descriptive term applied to shoes having one or more straps across instep	Designed centuries ago by Egyptians	Women & Children

Source: National Shoe Manufacturers Association. Style in Shoes, p. 4-5

out a last every five minutes. (1)

The first New England lasting company was set up by a Richard Richards in Lynn, Massachusetts about 1820. But it wasn't until 1839 that the first non-New England lasting factory was established at Dayton, Ohio. (2)

Even then lasting was precariously done. One last was used for two sizes merely by placing a pad over the last. The two sizes had the distinguishing names of slim and fat. Widths were unknown. Furthermore, upto the time of the Civil War the same lasts (generally made of maple wood) were used for both feet. Shoes were straight, because lasts were straight. Foot contours meant nothing.

Upto 1880 shoes had only three widths and ran in full sizes. Half-sizes were introduced after this period and were permanently accepted by the shoe industry as the standard method of sizing, notwithstanding the introduction of quarter-sizes in the early twentieth century. About this time a standard list of last measurements was published in the shoe industry. This codified and simplified the last making procedures. (3)

The period just preceding the turn of the century was a fairly stable one in the shoe industry. Shoes did not fluctuate in their style appeal and consequently there

1--National Shoe Manufacturers Association. The Story of Lasts, p. 2

2--Ibid

3--Ibid, p. 3

was little improvement in the last produced. But after the turn of the century, when shoe manufacturing began to mushroom, new lasts were developed. More competition for the entrenched New England shoe industry sprang up in the expanding Middle West. Uptil and including World War I shoe production levelled off and the demand for improved lasts became somewhat stationary. However, the period of the early twenties was a period of new styles and new tastes. Novelty shoes with their quickly changing styles dominated the women's shoe field. (1) The demand for these shoes outran the number of lasts available. Fashion also demanded from the shoe manufacturer better fitting shoes. At first the last industry could not expand fast enough, but after the initial boom, last production finally managed to catch up with shoe production, and from that time, 1920, last making has not developed or changed basic methods of manufacture.

Lasts are made from kiln-dried rock maple -- obtained from New York, Vermont, Wisconsin and Pennsylvania. The virgin wood is cut at rough last block mills. (2) After drying in air-dried sheds for six to nine months, the rough blocks are kiln dried to remove whatever moisture remains in the wood. The blocks are then forwarded to last factories for further finishing which is one of the few

1--Ibid, p. 6

2--Ibid, p. 11

in the shoe and shoe findings industries that is still done only by order. (1)

When the manufacturer calls for a specific type of last, the rough blocks are placed in the lasting machine and a left and right are produced simultaneously, from a master model. The lasts then have hinges, metal thimbles, rivets, leather tops and iron heel plates attached. After the lasts are sanded, polished and paired, they are ready for shipment to the manufacturer. (2)

Last styles set the ultimate style for the consumer. As such they originate with the last modelmaker, or the last salesman, or shoe manufacturers who have a constant feel and contact with the market. The retailers who sell the footwear can also sense what the customer wants, or judge by sales the trend of footwear. (3) What is more, the competition from foreign importations influence and change the styles of shoe lasts. Mexico, for instance, has developed the hurache, a style which has become a favorite for summer wear all over the United States. (4) All these factors acting in combination or individually help determine the last which, in turn, helps determine what the ultimate consumer will wear this Fall, Winter, Spring or Summer.

1--Ibid

2--Ibid, p. 12

3--Ibid, p. 13

4--Ibid

4. The Sizing System

Basically there are two systems employed in this country--the American system and the French system. (1) Both are comparatively simple to understand. The American sizes are classified in the following manner:

<u>Type</u>	<u>Size</u>
Infants' First Run (Cacks)	0-5
Infants' Second Run	$5\frac{1}{2}$ -8
Children's	$8\frac{1}{2}$ -11
Little Gents'	$8\frac{1}{2}$ -11
Misses'	$11\frac{1}{2}$ -2
Youths'	$11\frac{1}{2}$ -2
Growing Girls'	$2\frac{1}{2}$ -9
Boys'	$2\frac{1}{2}$ -6
Women's	3-10
Men's	5-15

All shoes have their sizes printed on the inside section of the shoe (usually on the right hand side of the lining near the heel). Some shoes will be marked 6C, others, 360. When numbers are used, the first number is the width, the second number the size, and the third number the half-size or zero. The numbers which follow to the right are case numbers, the stock number and the pairs per case. Example: 065 ($6\frac{1}{2}$ AA) 565 (stock number) 12493 (case number) 12 (pairs per case).

The French system is based upon the key number 32. This figure is subtracted from the first two given figures to obtain the length. When the last figure is separated from the first by a dash, it indicates a half size.

For instance, 40-14 is $8\frac{1}{2}D$. The figure one used in this example merely indicates that one is A and is disregarded for determining size; the figure 4 indicates a D width.

Widths

000--AAAA
00--AAA
0--AA
1--A
2--B
3--C
4--D
5--E
6--EE
7--EEE

IV. MATERIALS

A. Leather

1. Relation to the Shoe Industry

Of all the materials used in the shoe industry, leather is by far the most important. Its uses are numerous; for instance, shoe uppers, soles, linings, heel pads, heels, trims and bows are composed of leather. (1) Almost from the beginning of the shoe industry leather has been the main material in the construction of shoes. So long has this combination existed that the two have become synonymous in the eyes of the consuming public.

2. Importance to New England

Because leather is such a desirable product for shoe manufacturing, the shoe industry is the principal buyer of hides, both domestic and foreign. (2) In relation to the nearness of a domestic hide supply New England is at a geographical disadvantage only, inasmuch as the hide supply depends on the location of cattle, and the location of cattle depends on natural advantages for stock breeding not inherent in this area. But New England has nullified this

1--National Cotton Council of America. Cotton in the Shoe Industry, introduction.

2--Edgar M. Hoover, Jr. Location Theory and the Shoe and Leather Industries, p. 117

discrepancy by exploiting foreign markets for other leathers. In fact, it has done so from the very beginning of its history. Hoover quotes from "Some Influences of the Sea upon the Industries of New England" to illustrate how the sea was an important factor in Boston's shoe development: (1)

The shoe industry as well as the cotton industry has been able to attain first place in New England because the sea was close at hand. Although shoemaking was a local industry in all the American colonies, it attained distinction in Massachusetts. Everywhere else the village cobblers were hampered by a lack of raw material and confined to a local market by the difficulties of transportation. Only at Lynn were these obstacles removed. Lynn lay between Salem and Boston, two of the principal colonial ports. The boats that carried fish and other products away from these harbors brought back cargoes of hides collected from scores of places touched on the voyages. Some vessels made special trips to the west coast of South America and California with the sole purpose of gathering hides for the New England tanneries.

Furthermore, New England's importance as a dairy and meat center made available a large supply of domestic leather at the local slaughtering centers which would ordinarily not be procurable. Since hides and skins are a secondary part of cattle raising--meat and dairy products being the main sources of revenue--slaughtering is done near the principal dairy markets. (2)

Hence, in relation to other producers, New England is not at any particular competitive disadvantage in its importation of domestic hides. Low freight charges--about

1--Ibid, p. 128

2--Ibid, p. 127

one per cent--do not influence manufacturing costs to a great extent. (1) As a matter of fact, the numerous tanneries and shoe supply houses in this area offset this differential in domestic hides; the materials from these subsidiary industries are exported to other shoe-producing states. (2)

B. Tanneries

The existence of tanneries is essential to shoe manufacturers for the supply of treated leather. At first the tanning industry was located close to forest areas--because of the abundant bark supply necessary in the tanning process--therefore, there was no limiting factor in the selection of a tannery site since the country was heavily forested. But tanneries were selected with an eye to other advantages such as the nearness of the leather supply and transportation costs. Since New England, which lay on the seaboard, could supply cheap water transportation, the tannery industry concentrated in this area.

As time went on, the supplies of bark, a necessity in tanning, became depleted. Too, the advantage of cheap water power was offset by the development of the railroads and "the process of bark-leaching and the use of concentrated

1--Federal Reserve Bank of Boston. The Outlook for the New England Shoe Industry, November, 1948, p. 6

2--Ibid

tropical extracts and inorganic tanning agents made it no longer necessary for tanneries to locate near forests." (1) Hence, tanneries began to move westward to be nearer their base of supplies. This meant an expansion of the tannery industry into the western area and a consequent separation of the tannery center into divisions, one to supply the West and the other to supply New England. This dichotomy had little effect on New England since the main problem was not one of nearness to materials, but nearness to markets. (2) In any case, there exists in New England today a heavy concentration of tanneries in spite of the west and southwest movements during the early part of this century. (3)

C. Other Materials

Cotton is also a major source of supply for the shoe industry. Cotton represents about 34% of the materials consumed in shoemaking. (4) Principally cotton's importance lies in linings; in fact, it is used far more than leather in this respect (see Table V). Cotton fabrics also compete with leather in the upper shoe market and have been used successfully for insoles, box toes and outsoles.

1--Edgar M. Hoover, Jr. Location Theory and the Shoe and Leather Industries, p. 270

2--Ibid, p. 265

3--Federal Reserve Bank of Boston. The Outlook for the New England Shoe Industry, November, 1948, p. 6

4--National Cotton Council of America. Cotton in the Shoe Industry, p. 1

TABLE V: ESTIMATED CONSUMPTION OF MATERIALS IN SHOES
1947

<u>USE</u>	<u>TOTAL ALL MATERIALS*</u> (Cotton Bale Equivalents)	<u>COTTON</u>	
		<u>BALES</u>	<u>% OF TOTAL</u>
Uppers	130,100	15,990	12.3
Linings	94,120	62,190	66.1
Bottoms	99,420	15,130	15.2
Laces	12,780	12,000	93.9
Thread	<u>15,380</u>	<u>12,760</u>	<u>83.0</u>
Total	351,800	118,070	38.7

*Including cotton, leather, rayon, wool, rubber, etc.,
measured in terms of cotton bale equivalents.

Source: National Cotton Council of America. Cotton in the
Shoe Industry, p. 1

Cotton markets are located in the southern part of the country--and as such do not give one shoe producing area any great advantage over the other. Furthermore, since the cost of cotton fabrics is high and since producers have had more experience with leather, cotton materials are limited to certain types and definite quantities in those types.

Other materials which are used in shoe manufacture play a minor role in production. They are listed as follows: (1)

Rayon--Used as linings for women's shoes.
Because all-rayon linings are not durable, they contain a cotton filling.

Wool--Limited to wool gabardine uppers.

Plastics--Generally unsatisfactory for linings because of stretching and shrinking qualities.

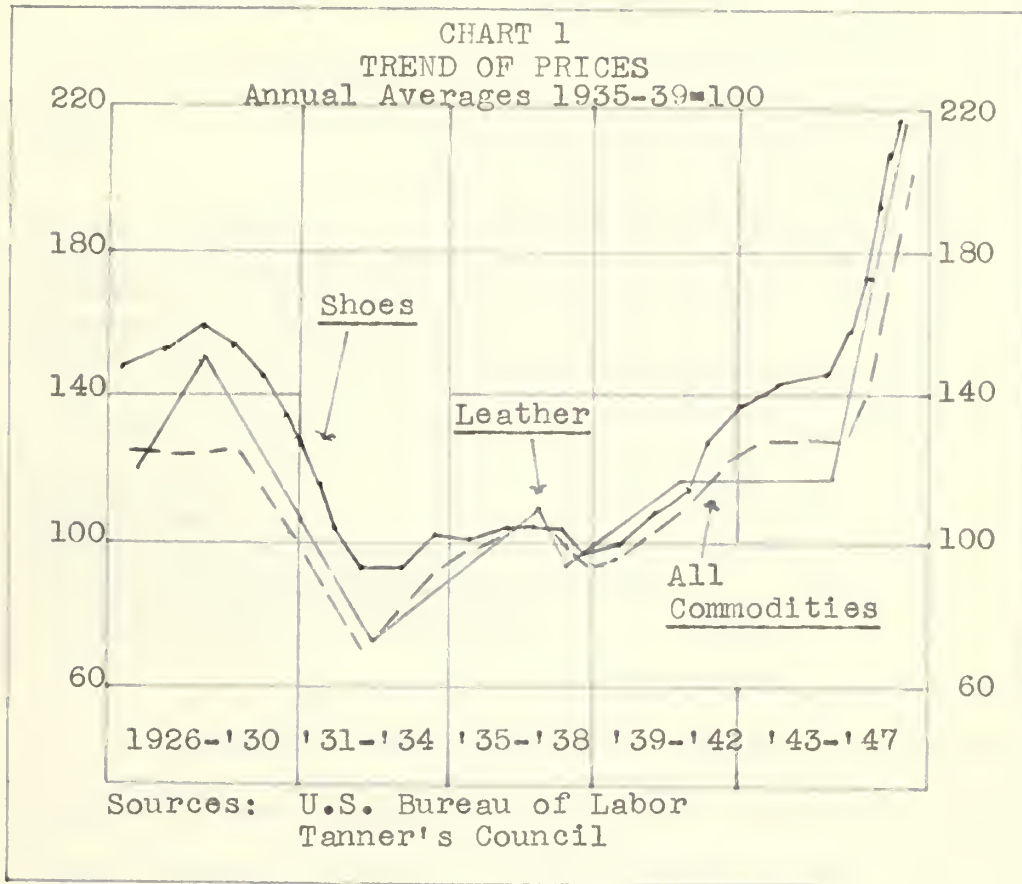
Nylon--Has limited use because of the difficulty of adapting it to sewing machines, though it has a high tensile strength and elasticity.

Linen--Used in welt sewing because of its strength and durability. High costs prohibit wide usage.

Silk--Although this material is ideal for sewing because of its strength, high costs have cut its consumption.

D. Costs

In dollar value mounting costs of materials have



Secondary Source: Standard and Poor's Industry Survey
Leather & Shoes Basic Analysis
March 12, 1948

squeezed the profit margins of the New England shoe producers. However, the make-up of costs on a percentage basis has not materially altered since pre-war days; the bulk of all costs lies in materials and supplies. (1) The tables below have undergone little change for 1947 and 1948. (2)

<u>Item</u>	Women's Shoes (July 1, '41)	Men's Shoes (July 28, '43)
Leather costs	39.9%	43.5%
Cloth linings and doublers	2.6	1.4
Findings, laces, etc.	4.7	4.7
Cartons and cases	2.0	1.4
Lasts, dies and patterns	<u>2.3</u>	<u>.4</u>
Total material and supplies	51.5%	51.4%
Labor costs	29.5	24.2
Royalties	2.1	1.8
Other factory expense	6.6	6.0
Selling and Administrative costs (excl. advertising)	<u>10.3</u>	<u>16.6</u>
	100.0%	100.0%

As for non-labor costs, there are marked divergences in such items as fuel, power, interest, insurance and taxes especially among intra-regional firms. (3) These differences in some cases have brought about migration from one New England state to another, and from the New England states to other regions.

1--Federal Reserve Bank of Boston. The Outlook for the New England Shoe Industry, November, 1948, p. 6

2--Ibid

3--Associated Industries of Massachusetts. Economic Report on Massachusetts Industry, January 31, 1949, p. 6

V. THE AGE OF THE INDUSTRY

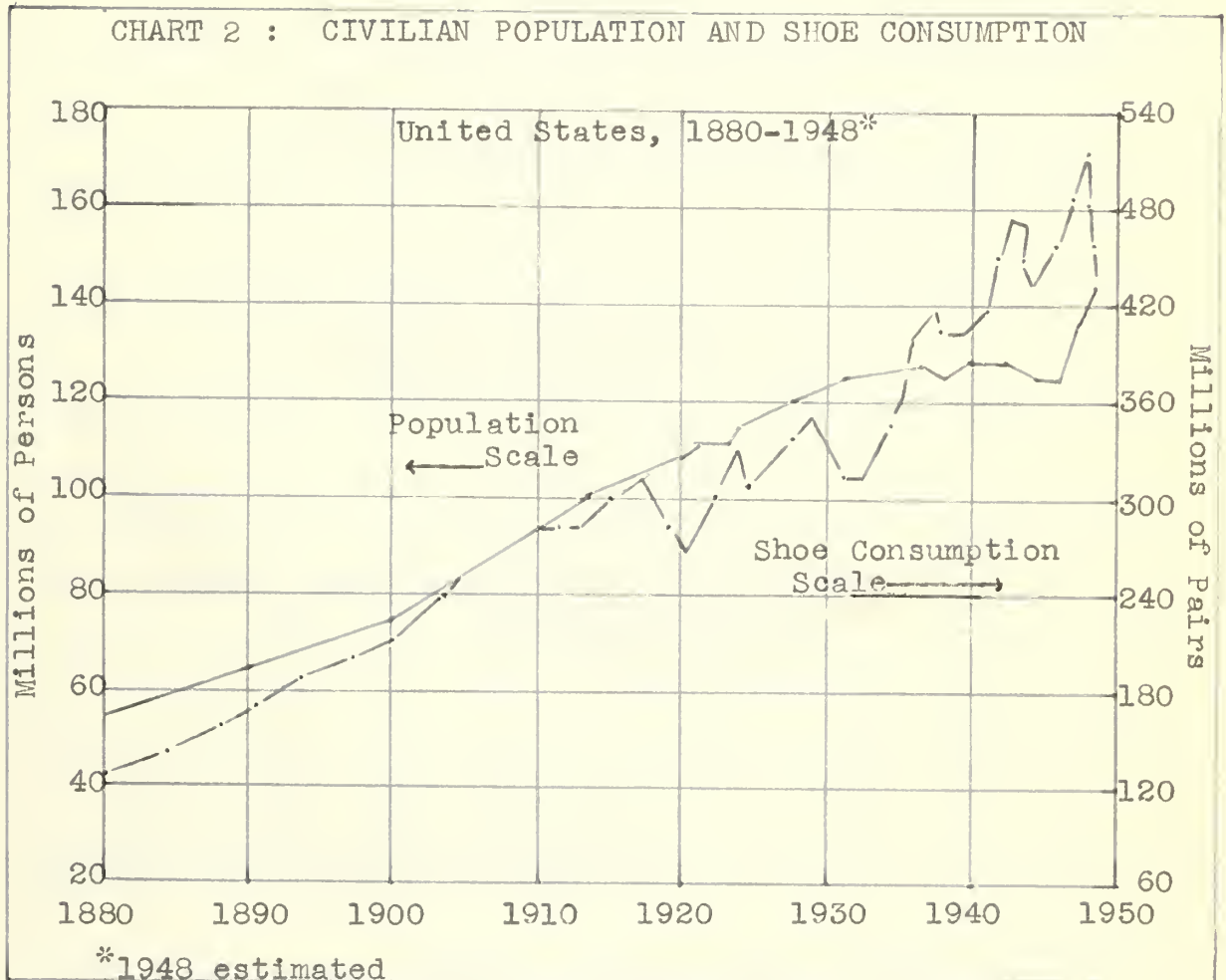
A. The Stages

The growth and development of industry in the national economy is not unlike that of the growth and development and eventual decline of the human being. In the early stages a new product is introduced and becomes extremely popular. Demand increases. The industry begins to feel its growing pains as many small companies struggle to exploit the market (Stage I). The industry is prosperous until overproduction occurs. Then the new companies are eliminated and only those in strong financial positions are left (Stage II).

However, the persistence of the market demand causes the remaining companies to grow and expand even in the face of a counter-movement by the business cycle (Stage III).

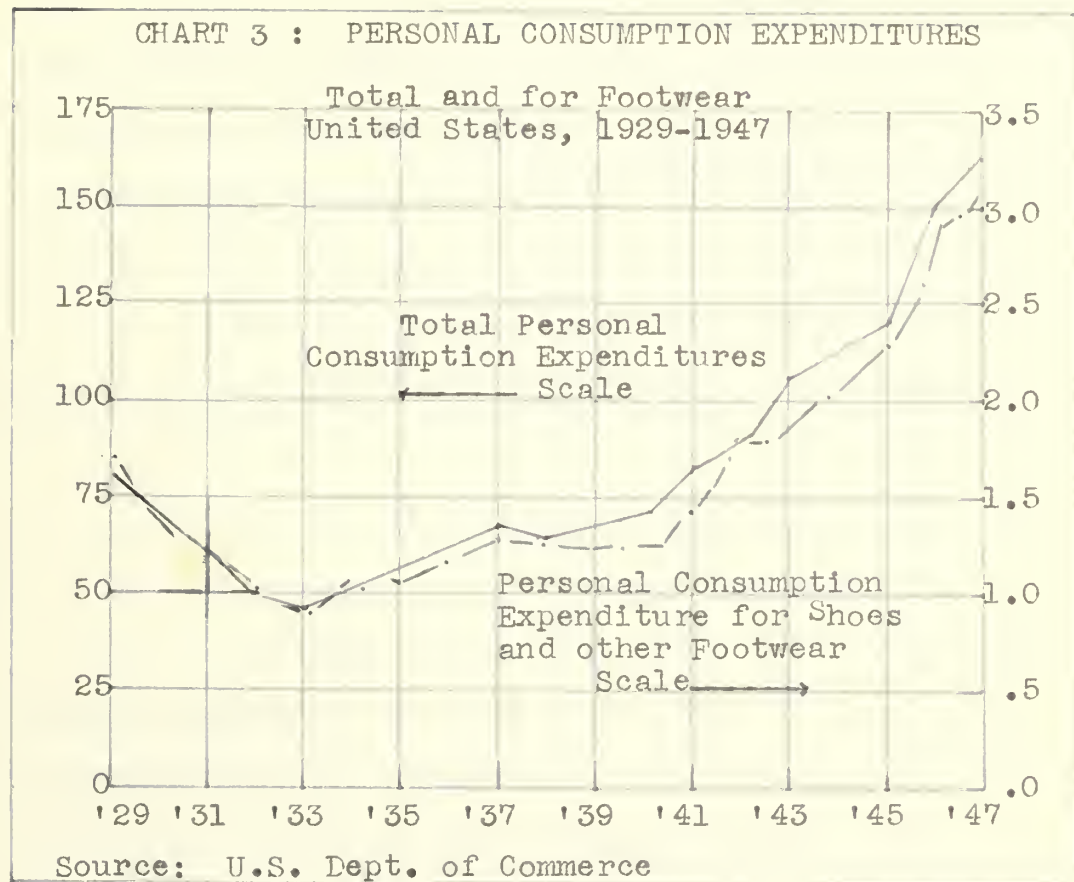
Adolescence has now been reached and the industry "begins to feel the tidelike pull of the business cycle." (1) Total volume remains steady, though it is not now on a rising curve. The industry experiences some downward trends when a change takes place in the business cycle (Stage IV). But it continues to progress vigorously, though flattening

1--Investment Bankers Association of America. Fundamentals of Investment Banking, p. 45



Sources: Bureau of the Census
Boot and Shoe Recorder

Secondary Sources: Federal Reserve Bank of Boston. Monthly Review, December 1948.



Secondary Source: Federal Reserve Bank of Boston.
Monthly Review, December 1948

its curve with each succeeding business recession.

At full maturity (Stage V) the industry is closely tied to the secular trend, and the progress or decline of the national economy. Within the industry certain companies may be able, by means of strong management, large financial resources, successful marketing methods and progressive labor-management relations, to run counter to the general trend of the industry.

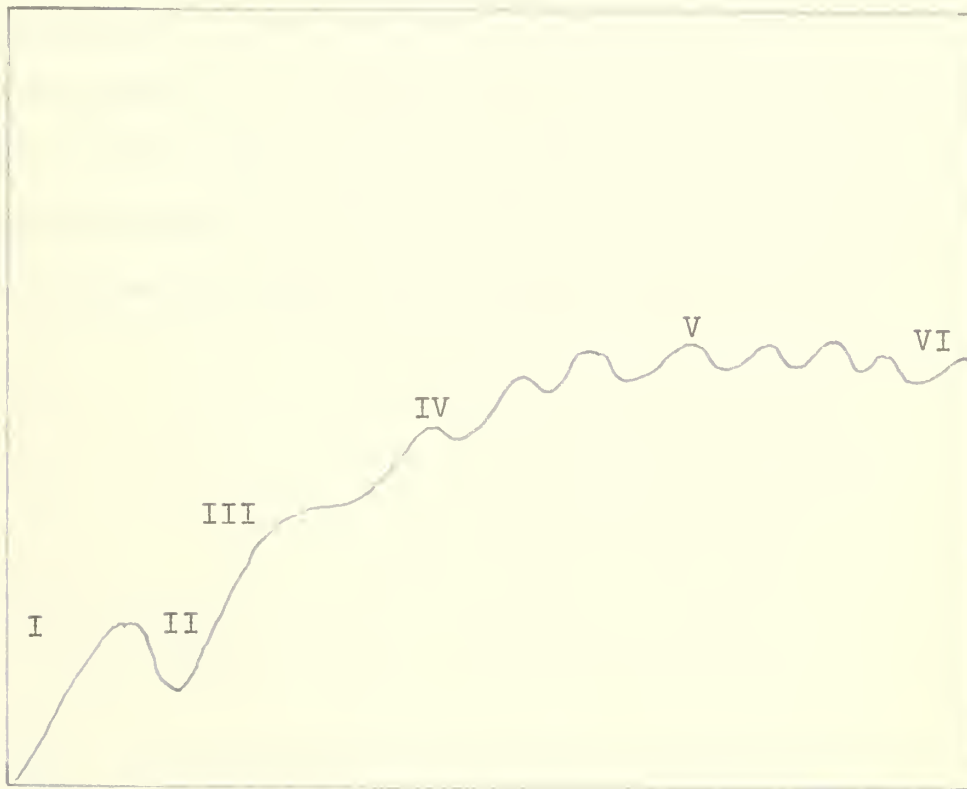
In its declining period (Stage (VI) the industry loses ground to other competitive forces or substitutes.

B. The Shoe Industry

In terms of the life cycle of the industry, shoe manufacturing is in an advanced stage of development. The industry is fully matured and is closely tied to the progress and decline of the national economy. The national industry is in Stage V. Chart 2--Civilian Population and Shoe Consumption--clearly indicates that, except for brief drops in consumption in 1921 and 1930-1931 and large increases in 1946 and 1947, shoe consumption is closely associated with population growth. In addition, Chart 3--illustrating personal consumption expenditures--further emphasizes the close relationship of shoe consumption to the secular trend.

There is another point to be noted; within the

CHART 4 : THEORETICAL PATTERN OF AN INDUSTRIAL LIFE CYCLE



Source: Investment Bankers Association of America.
Fundamentals of Investment Banking, p. 45.

national industry New England shoe production is in its declining stage or Stage VI. The pattern of productivity for this area is a diminishing one. Competition from other areas is challenging New England's position as a leader in production. The region is not holding its own; in periods of prosperity output has gone up, but its downward trend will be marked by a greater trough than any upward swing. From the Civil War to 1948 the New England sector has been losing its share of output while total shoe production has been increasing with the increasing population.

VI. THE ROLE OF LABOR

A. History

1. Introduction

In the beginning, two factors contributed to the development of a highly skilled labor pool in New England: the severe winter climate which limited farm produce and consequently left farm workers available for other work and a sea-going population which left families ashore. Both sources were only too eager to supplement their incomes through shoemaking; materials were available from the nearby tanneries and no mechanical apparatus was needed.

Gradually a labor pool was built up in certain highly-populated areas. Shoemaking began to be a full-time industry with full-time wage earners. More production led to increasing specialization which, in turn, led to lower production costs and better shoes.

Most of the simple work was carried on in the homes of the workers, but finished pieces which required a high degree of skill or some mechanical operation were done by the shoe producer.

As New England developed, and agriculture no longer was an element of great importance in the economy, a larger labor pool became available. Manufacturing became extremely localized near the labor pools and from them

sprang up a trained and skilled group of shoe workers.

"The character of the labor, as well as the local market, determined the sort of footwear made in these northern New England states. Boots and heavy work shoes predominated with slippers and other easily-put-together articles also represented." (1)

2. The Unions

The development of the McKay stitcher just after the Civil War presented two problems to New England: first, skillful labor was not as necessary as it was during the hand stage, therefore, the Mid-West with its untrained labor could compete in shoe manufacturing and, secondly, mechanization led to labor troubles.

Technological improvements threatened the position of the skilled shoe workers; labor had to organize to protect itself. The first large-scale organization was the Knights of St. Crispin in 1867, so named after a patron saint of shoemakers. It did not last long, breaking up because of poor financial structure and lack of power. (2) From that point on came a succession of labor organization (which are listed on the following page) none of which has ever been strong enough to dominate the industry, or put

- 1--Edgar M. Hoover, Jr. Location Theory and the Shoe and Leather Industries, p. 220
- 2--Horace B. Davis. Shoes: The Workers and the Industry, p. 138

TABLE VI: SHOE UNIONS

<u>ORGANIZATION</u>	<u>LOCATION</u>	<u>DATES</u>
Knights of Labor Cutters	Lynn, Brooklyn, Philadelphia, Rochester, Milwaukee	1885-1913
Lasters Protective Union	Lynn, national	1879-1895
Shoe Workers Protective Union	Haverhill	1899-1937
United Shoe Workers of America	Lynn, New York City, national	1909-1923
Allied Shoe Workers Union	Lynn	1912-1923
Amalgamated Shoe Workers of America	Lynn	1923-1925
Associated Slipper Workers Union of New York City	New York City	1928-1929
United Shoe Workers of America	Lynn, Boston	1929-1930
Independent Shoe Workers Union	New York City	1929-1931
Shoe and Leather Workers Industrial Union	New York City, New England	1931-1933
National Shoe Workers Association	Lynn, Boston	1932-1933

TABLE VI: SHOE UNIONS (CONT'D)

<u>ORGANIZATION</u>	<u>LOCATION</u>	<u>DATES</u>
United Shoe and Leather Workers Union	National	1933-1937
Brotherhood of Shoe and Allied Craftsmen	Brockton, South Shore of Massa- chusetts	1933 to present
United Shoe Workers of America (C.I.O.)	National	1937 to present

Source: Horace B. Davis. Shoes: The Workers and the Industry, p. 177

the shoe workers on a national basis.

The peculiar nature of the shoe industry has also contributed to the growth of labor organizations. Shoe unions have tended to concentrate where the industry has become well established. This means that in cities like Brockton, Haverhill, Lynn and Manchester, the unions have their greatest strength while in small mid-western cities labor unions have made no penetration at all. Generally, where the unions have penetrated, they have raised the wage scale (see Table IX) and have proven cooperative with management. (1)

The piecework system which is the main method of payment in the industry--though a few manufacturers have attempted to change to an hourly basis--is another constant source of friction. Rates for different processes are different, causing considerable confusion and resentment among the workers. Too, piece work is subject to varied abuses by the manufacturer--rates are often set according to the fastest worker, thereby forcing other laborers to work at a killing pace. (2)

Styles cause seasonal variations in production with consequent unemployment periods. Hence, workers have attempted to obtain a rate of pay high enough to cover them-

1--Federal Reserve Bank of Boston. The Outlook for the New England Shoe Industry, November, 1948, p. 6

2--Horace B. Davis. Shoes: The Workers and the Industry, p. 108

selves during the slack periods. Usually their demands are made during the peak production months, the July to October or February to March periods. (1)

On the other hand, employers have been able, in many cases, to take advantage of the weak labor movement. The use of violence and labor spies in the industry to break up unionism was not an uncommon thing. In fact, the industry was famous for the use of the "Yellow Dog Contract" and the "Good Behavior Bond" in which the employee put up a sum of money guaranteeing his good behavior. (2)

Another contributing factor to the prevention of large-scale unionization has been the migratory aspect of the industry. The majority of New England shoe manufacturers are small-scale operators. Inasmuch as they do not have any investment in capital machinery, their plants can be transferred from one area to another with great facility. This has enabled them to shift from sector to sector to avoid the high cost of unionization. Mobility was almost necessary since a change in production costs could bankrupt the marginal producer who, without the benefit of large-scale efficiency, was trying to manufacture his product in a highly competitive field. This excessive moving about led to dispersion and the prevention of aggressive leadership in the shoe unions. (3) What is more, migration was influ-

1--Ibid, p. 121

2--Ibid, p. 141-146

3--Ibid, p. 15

TABLE VII: CHARACTERISTICS OF FOOTWEAR ESTABLISHMENTS
STUDIED BY THE BUREAU OF LABOR STATISTICS, OCTOBER 1945

	<u>Establishments</u>	<u>Unionization</u>	<u>Percent</u>
<u>United States</u>	347	196	56
<u>New England</u>	111	65	59
<u>Middle Atlantic</u>	104	51	49
<u>Border States</u>	15	8	53
<u>Southeast</u>	14	2	14
<u>Great Lakes</u>	53	42	79
<u>Middle West</u>	35	20	57
<u>Pacific</u>	15	8	53

Source: U.S. Department of Labor, Bureau of Labor Statistics, Footwear 1945, p. 12

TABLE VIII: AVERAGE HOURLY WAGE RATES (STRAIGHT-TIME HOURLY EARNINGS) 1/ FOR SELECTED OCCUPATIONS IN FOOTWEAR ESTABLISHMENTS, UNITED STATES AND SELECTED REGIONS, OCTOBER 1945

Occupation, grade and sex	<u>United States</u>		<u>New England</u>	
	<u>2/</u> Number of workers	Average hourly rates	Number of workers	Average hourly rates
PLANT WORKERS				
<u>Men</u>				
Bed Machine operators	3,523	\$1.18	1,411	\$1.31
Carpenters, maintenance	123	.89	52	.87
Cutters, vamp and whole shoe, hand	1,763	1.28	257	1.11
Cutters, outsole, machine	884	1.04	320	1.09
Cutters, vamp and whole shoe, machine	5,100	1.21	2,554	1.31
Edge setters	1,965	1.30	763	1.45
Edge trimmers, machine	2,750	1.33	1,081	1.55
Electricians, maintenance	130	.98	39	1.05
Fancy stitchers	239	1.31	67	1.14
Floor boys	659	.61	274	.66
Goodyear stitchers	2,037	1.07	697	1.27
Heelers, leather, machine	924	1.08	327	1.29
Inspectors	588	.83	218	.87
Janitors	1,057	.55	309	.54
Machinists, maintenance	196	1.00	51	1.21
Maintenance men, general utility	321	.84	97	.96
McKay stitchers	267	1.21	157	1.24
Mechanics, maintenance	402	1.00	176	1.08
Pattern workers	53	1.23	25	1.09
Pullers over, machine	1,955	1.20	780	1.39
Shoe cleaners	276	1.14	27	1.10
Skivers, upper and lining machine	248	1.25	113	.90
Sole attachers, cement	688	1.16	332	1.13
Stock clerks	504	.74	162	.81
Treers	2,005	1.22	1,360	1.30
Vampers	741	1.32	339	1.14
Watchmen	696	.55	229	.57
Wood heel attachers	617	1.22	229	1.16
Working foremen, processing departments	600	1.27	182	1.13

TABLE VIII: AVERAGE HOURLY WAGE RATES (STRAIGHT TIME-HOURLY EARNINGS) 1/ FOR SELECTED OCCUPATIONS IN FOOTWEAR ESTABLISHMENTS, UNITED STATES AND SELECTED REGIONS, OCTOBER 1945 (CONT'D)

Occupation, grade and sex	<u>United States</u>		<u>New England</u>	
	<u>2/</u> Number of workers	Average hourly rates	Number of workers	Average hourly rates
<u>Women</u>				
Cutters, vamp and whole shoe, hand	132	.78	---	---
Cutters, vamp and whole shoe, machine	930	.78	107	.86
Edge trimmers, machine	149	.76	2	(<u>3/</u>)
Fancy stitchers	6,363	.85	3,046	.96
Floor girls	1,273	.58	494	.59
Inspectors	1,778	.61	698	.62
Janitors	91	.52	8	(<u>3/</u>)
Pasters, backers, or fitters, upper hand	4,868	.60	1,509	.63
Shoe cleaners	1,396	.62	558	.59
Skivers, upper and lining, machine	2,090	.74	619	.84
Sole attachers, cement	374	.74	112	.98
Stock clerks	136	.59	29	.62
Treers	1,486	.74	171	.83
Vampers	3,657	.80	1,012	.97
Wood heel attachers	138	.72	66	.74
Wood heel coverers	314	.63	36	.67
Working foremen, processing departments	141	.77	33	.76

1/ Excludes premium pay for overtime and night work.

2/ Includes data for other regions in addition to those shown separately.

3/ Insufficient number of workers to justify presentation of an average.

Source: U.S. Department of Labor, Bureau of Labor Statistics, Footwear 1945, p. 14

TABLE IX: AVERAGE HOURLY WAGE RATES (STRAIGHT-TIME HOURLY EARNINGS) 1/ FOR SELECTED OCCUPATIONS IN FOOTWEAR ESTABLISHMENTS, UNITED STATES AND SELECTED REGIONS, BY UNIONIZATION, OCTOBER 1945

Occupation and sex	UNITED STATES 2/			
	Union		Non-Union	
	establishments		establishments	
	Number of workers	Average hourly rates	Number of workers	Average hourly rates
<u>Men</u>				
Bed machine operators	2,129	\$1.22	1,394	\$1.11
Carpenters, maintenance	69	.88	54	.91
Cutters, vamp and whole shoe, hand	1,218	1.37	545	1.07
Cutters, vamp and whole shoe, machine	3,115	1.26	1,985	1.11
Cutters, outsole, machine	536	1.06	348	1.02
Edge Setters	1,306	1.35	659	1.21
Edge trimmers, machine	1,714	1.37	1,036	1.26
Electricians, maintenance	57	.92	73	1.02
Fancy stitchers	201	1.37	38	1.01
Floor boys	441	.61	218	.61
Goodyear stitchers	1,300	1.12	737	1.00
Heelers, leather, machine	566	1.13	358	1.00
Inspectors	379	.89	209	.72
Janitors	719	.55	338	.53
Machinists, maintenance	145	1.00	51	1.00
Maintenance men, general utility	213	.84	108	.83
McKay stitchers	128	1.23	139	1.19
Mechanics, maintenance	185	1.03	217	.96
Pullers over, machine	1,146	1.26	809	1.11
Shoe cleaners	192	1.27	84	.82
Skivers, upper and lining, machine	176	1.45	72	.75
Sole attachers, cement	393	1.30	295	.96
Stock clerks	279	.79	225	.68
Treers	1,371	1.25	634	1.16
Vampers	595	1.41	146	.98
Watchmen	419	.56	277	.53
Wood heel attachers	443	1.33	174	.97
Working foremen, processing departments	353	1.38	247	1.10

1/ Excludes premium pay for overtime and night work.

2/ Includes data for other regions in addition to those shown separately.

TABLE IX: AVERAGE HOURLY WAGE RATES (STRAIGHT TIME-HOURLY EARNINGS) FOR SELECTED OCCUPATIONS IN FOOTWEAR ESTABLISHMENTS, UNITED STATES AND SELECTED REGIONS, BY UNIONIZATION, OCTOBER 1945 (CONT'D)

Occupation and sex	NEW ENGLAND			
	Union		Non-Union	
	establishments	Average	establishments	Average
	Number	of hourly	Number	of hourly
	of workers	rates	of workers	rates
<u>Men</u>				
Bed machine operators	904	\$1.32	507	\$1.30
Carpenters, maintenance	38	.89	14	.81
Cutters, vamp and whole shoe, hand	174	1.10	83	1.13
Cutters, vamp and whole shoe, machine	1,619	1.35	935	1.24
Cutters, outsole, machine	205	1.08	115	1.11
Edge setters	523	1.47	240	1.41
Edge trimmers, machine	584	1.55	397	1.55
Electricians, maintenance	28	.98	11	1.23
Fancy stitchers	38	1.29	29	.93
Floor boys	221	.64	53	.73
Goodyear stitchers	498	1.29	199	1.21
Heelers, leather, machine	214	1.33	113	1.24
Inspectors	138	.90	80	.81
Janitors	192	.56	117	.52
Machinists, maintenance	43	1.24	8	1.09
Maintenance men, general utility	65	1.00	32	.87
McKay stitchers	66	1.23	91	1.25
Mechanics, maintenance	104	1.08	72	1.08
Pullers over, machine	500	1.44	280	1.30
Shoe cleaners	18	1.03	9	---
Skivers, upper and lining, machine	70	.98	43	.78
Sole attachers, cement	169	1.21	163	1.05
Stock clerks	98	.81	64	.80
Treers	892	1.34	468	1.23
Vampers	274	1.15	65	1.10
Watchmen	137	.58	92	.55
Wood heel attachers	149	1.17	80	1.14
Working foremen, processing departments	104	1.22	78	1.02

Source: U.S. Department of Labor, Bureau of Labor Statistics, Footwear 1945, p. 20

enced by the inducements of many cities and towns who were anxious to locate industries within their boundaries. Some of the inducements have been extreme--free factory sites, tax rebates and even free labor! (1)

Migration has stripped many of the shoe towns of New England of their principal sources of employment, so that few towns like Brockton (in which the bulk of the industrial working potential is employed in the shoe industry) now exist. Competition from other industries, such as the durable goods or textile industries have played little part in enticing the workers since they do not offer much better conditions than those in the shoe industry. (2)

B. Earnings

Although there are wide variations in earnings from region to region and within regions, the Federal Reserve Bank reported in November, 1948 that: (3)

....the overall average hourly earnings of all plant workers in New England exceeded the national average by 12 per cent but were lower than earnings in the Middle Atlantic states. For both men and women workers, earnings in New England exceed the average for the country.

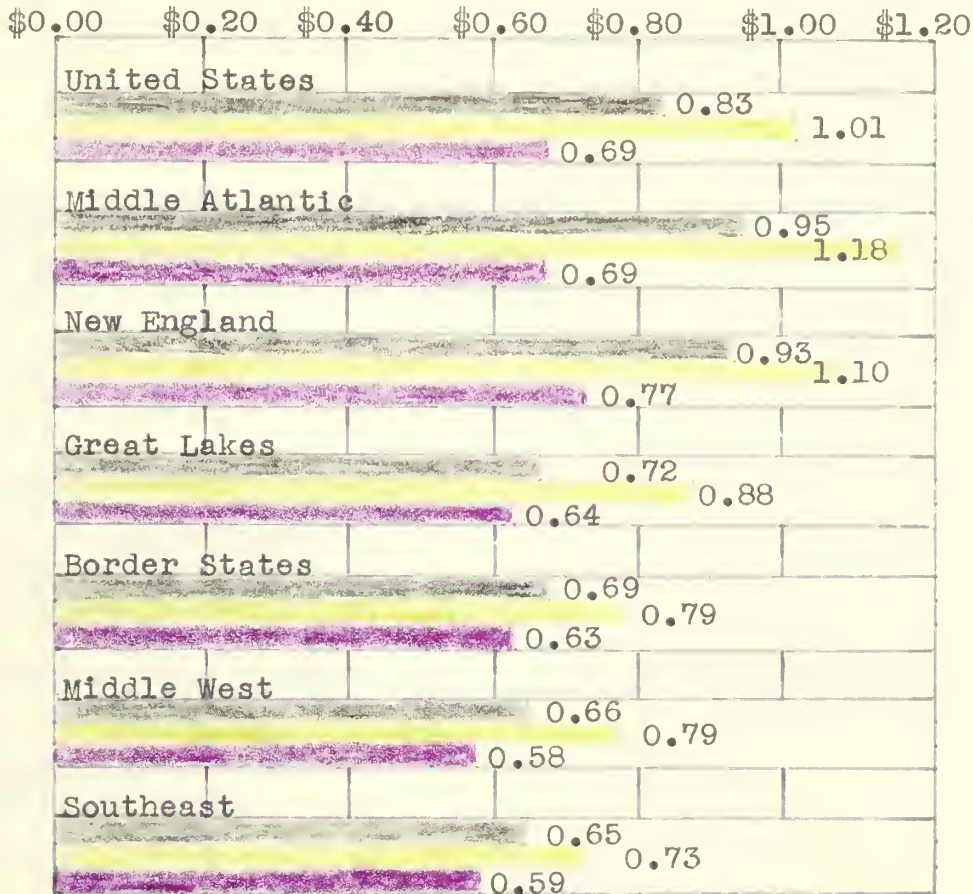
A comparison of earnings for individual job classifications shows that New England was

1--Horace B. Davis. Shoes: The Workers and the Industry, p. 27

2--Federal Reserve Bank of Boston. The Outlook for the New England Shoe Industry, November, 1948, p. 5

3--Ibid

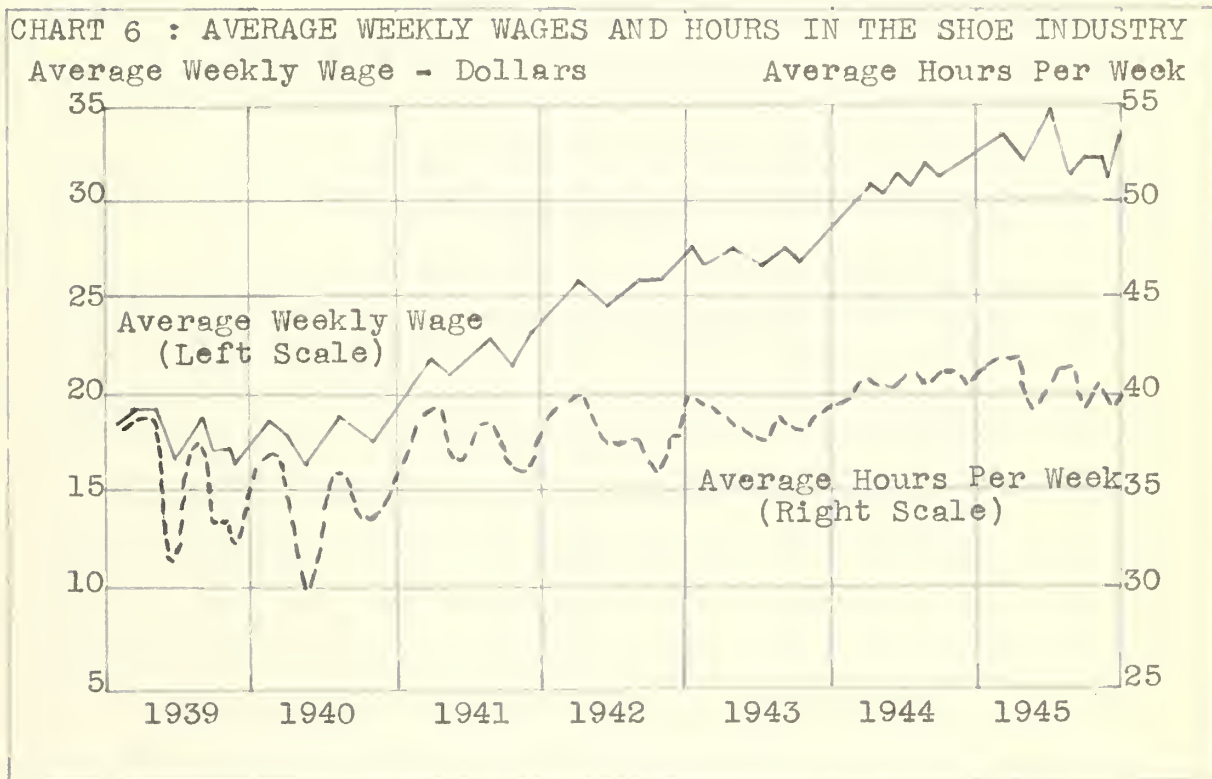
CHART 5 : AVERAGE HOURLY EARNINGS
of Plant Workers in Footwear Establishments by Regions



Source: Bureau of Labor Statistics

October 1945
KEY:
All workers
Men
Women

Source: Federal Reserve Bank of Boston.
Monthly Review, November 1948.



Source: Department of Commerce, Bureau of the Census.

above the national average in almost every instance. Moreover, according to a 1947 survey of the Bureau of Labor Statistics, shoe workers in the Boston area receive higher rates than comparable workers in all cities other than Los Angeles and New York. Massachusetts workers generally earn more per hour than comparable workers in New Hampshire and Maine.

VII. OTHER PROBLEMS

A. Competitive Position

1. Markets

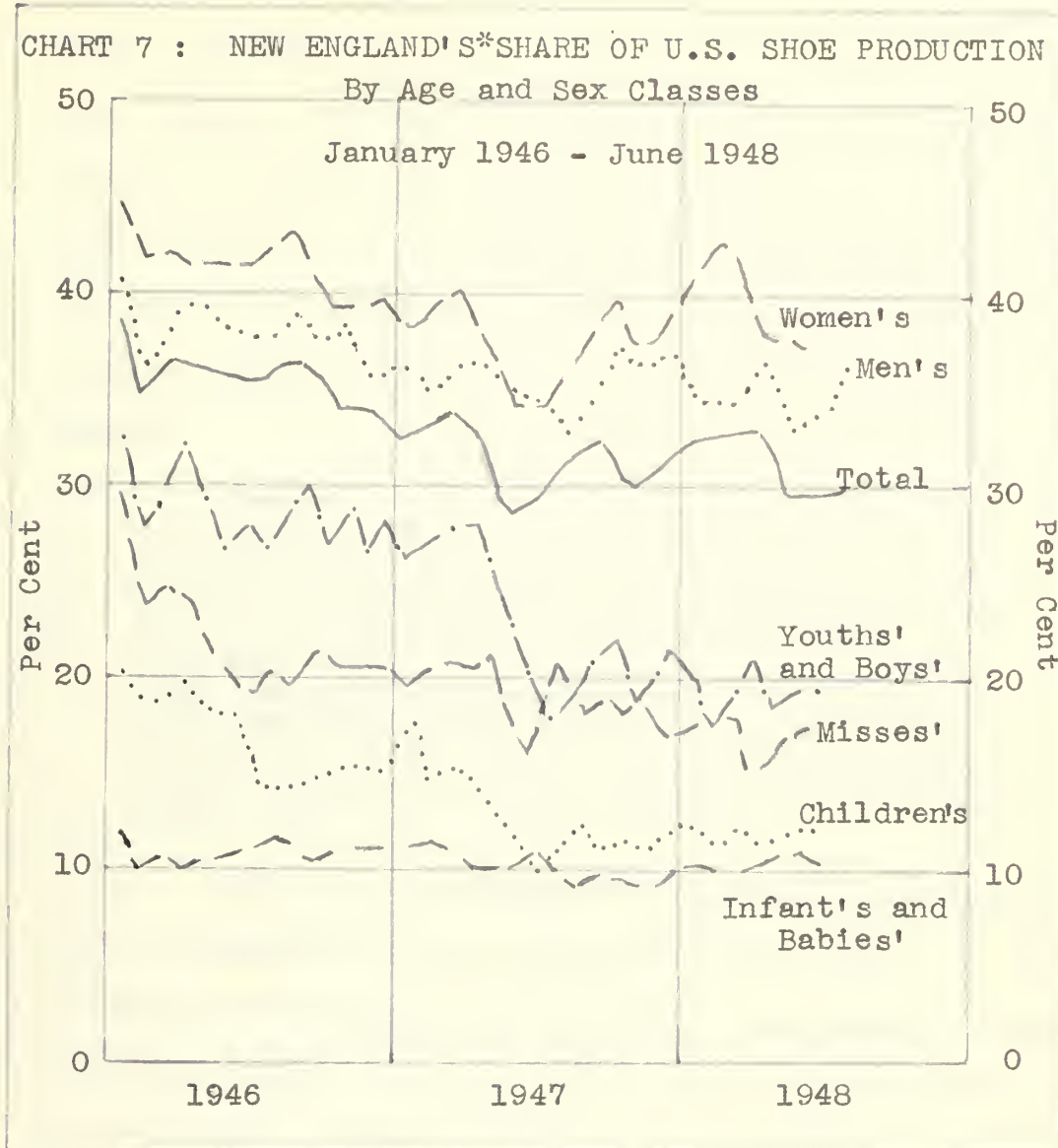
The most important factor in the growth of the New England shoe industry was its nearness to cheap water transportation. From Boston shipments could reach any coastal market; in fact, Boston was a well-established center of trade and an important trans-shipping area by the time any significant western migration took place in the early nineteenth century. (1)

Because of its established position, New England shoe producers could extend long credit terms directly to the southern and western merchants. But by 1830 the expanding interior cities no longer purchased directly from the producers; merchandise was obtained through jobbers, who, in turn, obtained their products from the Massachusetts shoemakers. (2)

Style factors, however, disrupted New England's predominance as the shoemaking center of the country. New tanning methods, and new developments in lasting enabled thinner and more elegant uppers to be used in the manufacture of shoes, particularly in women's shoes. Quick-

1--Edgar M. Hoover, Jr. Location Theory and the Shoe and Leather Industries, p. 173

2--Ibid, p. 174



*First Federal Reserve District (Excludes Fairfield County, Conn.) Source: Bureau of the Census.

Secondary Source: Federal Reserve Bank of Boston.
Monthly Review, November 1948.

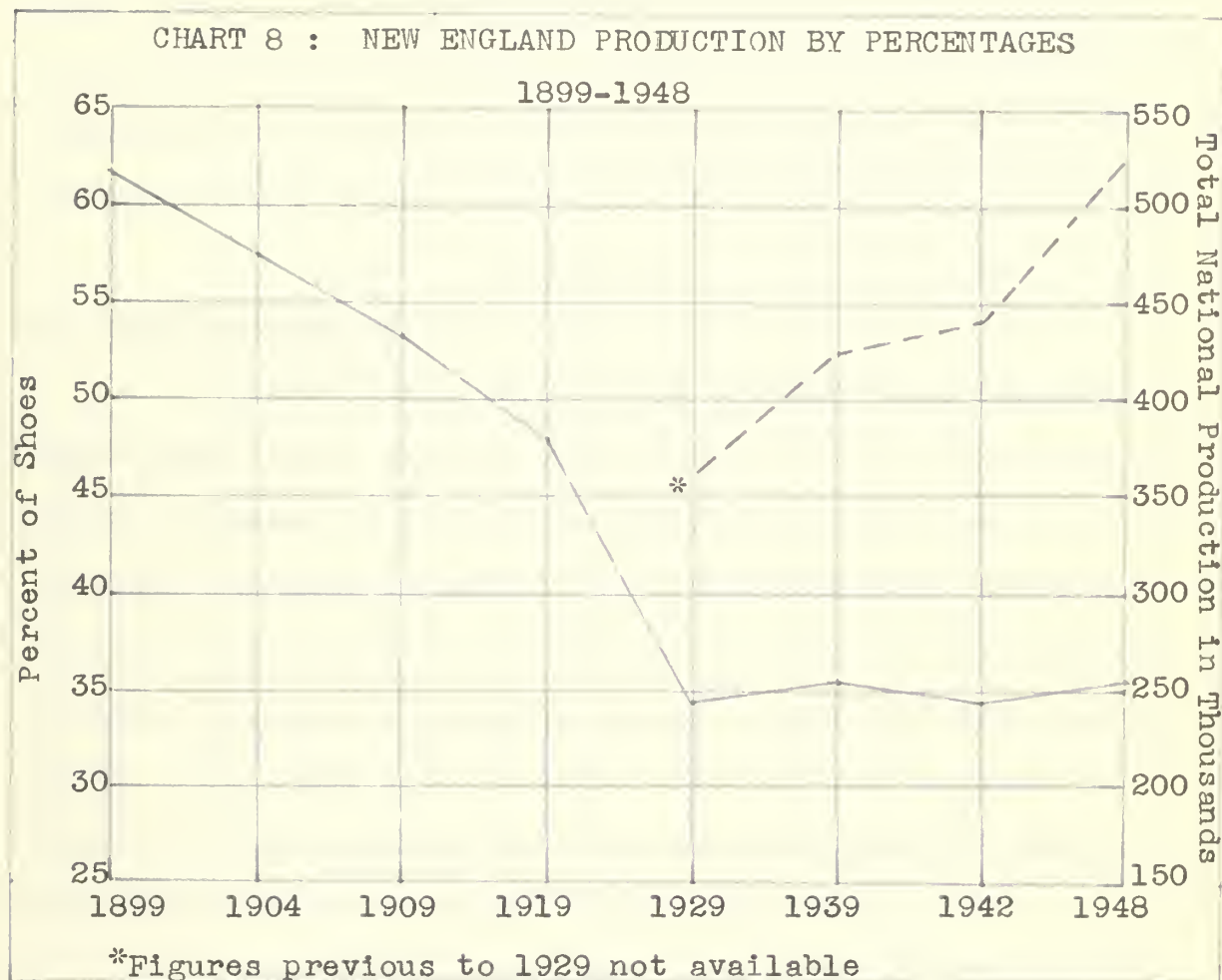
changing styles made it difficult for the manufacturers to reach the inland markets in sufficient time to keep pace with demand. Mid-Western manufacturers located near their sources of distribution could supply local demand better than New England. Furthermore, New England had developed so much in one direction of shoe manufacture -- for metropolitan areas -- that it could not possibly hold the entire market.

New England is made up largely of a group of manufacturers making certain distinct or special grades of shoes. Their product fits in with the requirements of the merchants located in the larger trading centers throughout the country, or of the non-manufacturing general line and specialty wholesaler, of the chain store and mail-order houses. Our weak point is in getting the product to the medium and small trading centers at a reasonable and competitive cost. (1)

Too, as the population constantly shifted westward, the markets on the seaboard became unable to absorb the heavy production of New England. New England itself with only a small fraction of the nation's population (6.4%) could consume but 20% of its total production. The Middle Atlantic states with 20.4% of the population was a strong competitor and therefore was not a significant importer of New England shoes. (2) This meant that New England had to go farther and farther afield for markets, with a consequent

1--Boston Chamber of Commerce. The Shoe Manufacturing Industry of New England, p. 12-13

2--Federal Reserve Bank of Boston. The Outlook for the New England Shoe Industry, November, 1948, p. 3



Sources: National Shoe Manufacturers Association.
Facts and Figures on Footwear, p. 3, 7.

Federal Reserve Bank of Boston. Statistical
Supplement of November and December 1948,
Table I, attached to The Outlook for the
New England Shoe Industry.

diminishing demand for its products.

Although New England had managed to keep a somewhat stable position in the distribution of shoe products from 1925 to 1946, nonetheless, its disadvantageous geographical location--affecting its ability to reach distant shoe markets--has limited distribution to the point where a downward trend is indicated over the coming years. (1)

2. Machine Leasing

Before the Civil War the ordinary shoe manufacturer made little capital contribution for his machinery and tools. Changes in methods of manufacture had come along, to be sure, but they weren't of such a nature that the manufacturer was forced out of operation. But Colonel McKay's stitcher created an enormous change in manufacturing procedures. His complicated machine effected huge savings in labor, so much so that those who adopted the sewer had a competitive advantage over other manufacturers.

Because small producers could not afford the initial outlay for the machine and because McKay had to have wide distribution in order to make any profits, he decided to lease his equipment. McKay also serviced the machinery and supplied spare parts. When Goodyear entered the field, the leasing system was so well established that he, too, had to adopt it. To avoid duplication of equipment and cut-

throat competition the United Shoe Machinery Corporation was formed in 1899 from the McKay Shoe Machinery Corporation, the Consolidated and McKay Lasting Machine and the Goodyear Sewing Machine Company.

Through the system of leasing there are no geographical differences in installation costs; costs are the same for a Boston shoemaking firm, a few miles away from the main plant of United, as a California company. If such cost differentials were allowed to exist by United, there is every reason to believe that they "would have been in favor of districts of concentrated production, since there the actual costs of installation, servicing, and so on, are at a minimum." (1) Obviously, New England was unable to maintain its early lead in low machinery costs and skilled labor since the leasing system tended to disperse the industry.

(2)

Moreover, since royalty payments are the same for the small as for the larger manufacturers, the economy of large-scale operations cannot be realized. Because capital requirements for machinery are so low, many small-sized manufacturers have been encouraged to enter the industry--with an attendant overdevelopment and overproduction.

Standardization of machinery also eliminates any competitive advantage obtained through new processes, other

1--Edgar M. Hoover, Jr. Location Theory and the Shoe and Leather Industries, p. 173

2--Ibid, p. 203

than a short-run advantage, since the process will inevitably spread throughout the industry. (1) Any competitive advantage derives from location and managerial skill. (2)

B. The Size of New England Firms

It is comparatively easy to enter the shoe industry. Financial requirements are small. Only a moderate deposit is necessary to rent the needed machines and equipment. Rental charges are paid on an output basis, thus eliminating depreciation, obsolescence charges and reducing idle plant costs. Labor costs vary with the fluctuations in demand. "Piece-work wage rates, coupled with machinery rentals based on actual production, help to maintain profit margins both in good times and bad, and offset to some extent the adverse effects of fluctuating raw materials prices." (3) Thus small marginal manufacturers who contribute to the excessive amount of failures each year can enter the field. Furthermore, it is among these small companies that the bulk of New England production is spread.

Of the entire national production it is significant to note that five large firms--the International Shoe Company, the Endicott-Johnson Company, the Brown Shoe

1--Federal Reserve Bank of Boston. The Outlook for the New England Shoe Industry, November, 1948, p. 5

2--Ibid

3--Standard & Poor. Industry Survey, Leather & Shoes Basic Analysis, March 12, 1948, p. 4

Company, the General Shoe Company and the Melville Shoe Company, none of which are New England firms--produce 30% of the national output. (1) The remainder of production is scattered among 1095 smaller companies.

Because the larger concerns have been able to sell directly through their own retail units or have well-established connections with independents, mail order houses, chain stores and department stores, they have, in consequence, improved their positions in the industry. (2) The Federal Reserve Bank of Boston says:

For example, four of the largest shoe producers showed an average increase of 10.6 per cent in output from 1946 to 1947, while the rest of the industry combined (including the other large firms) showed a decline of 16.1 per cent in output. The drop was far greater for most of the small producers.

The larger companies have also attempted to stabilize their output by producing staple lines and by decentralizing their plants. This has forced the new manufacturers to seek their outlets in the high style fields where failure is the greatest. This has been the pattern of competition in New England: (3)

The average New England shoe manufacturer is smaller than the typical shoe producer in the United States as a whole. Even though the New Hampshire and Maine companies are above average in size, the much lower Massachusetts average dominates the regional figures....The shoe

1--Federal Reserve Bank of Boston. The Outlook for the New England Industry, November, 1948, p. 3

2--Ibid

3--Ibid, p. 4

TABLE X: SUCCESS IN USE OF SALES CHANNELS, BY CLASS OF
SHOE -- 1947

Sales Channel	Men's Shoes	
	Sales Through Channel, 1947	Change, 1946 to 1947
Affiliated retail stores	44%	plus 9%
Independent retailers	36	minus 2
Wholesalers and jobbers	10	minus 23
Mail Order houses	4	minus 20
Chain stores	3	plus 34
All others	3	plus 4

Sales Channel	Women's Shoes	
	Sales Through Channel, 1947	Change, 1946 to 1947
Affiliated retail stores	5%	plus 38%
Independent retailers	14	minus 15
Wholesalers and jobbers	28	minus 29
Mail order houses	4	minus 41
Chain stores	49	minus 16
All others	--	--

Sales Channel	Misses' and Children's Shoes	
	Sales Through Channel, 1947	Change, 1946 to 1947
Affiliated retail stores	--	--
Independent retailers	59	plus 25%
Wholesalers and jobbers	31	minus 13
Mail order houses	--	--
Chain stores	10	plus 1
All others	--	--

Source: Federal Reserve Bank of Boston. The Outlook for
the New England Shoe Industry, November 1948, p. 9

industry in this area is overbalanced with small producers.

This situation was probably a factor in New England's lower share of shoe production after 1946. It could easily contribute to future shifts in the same direction for both New England and the Middle Atlantic states, whose shoe companies are also smaller than the national average.

C. Distribution and Output

Because so many of the firms located in New England are either closely controlled corporations or small businesses without adequate records, it is difficult to make any suppositions as to methods of marketing. (1)

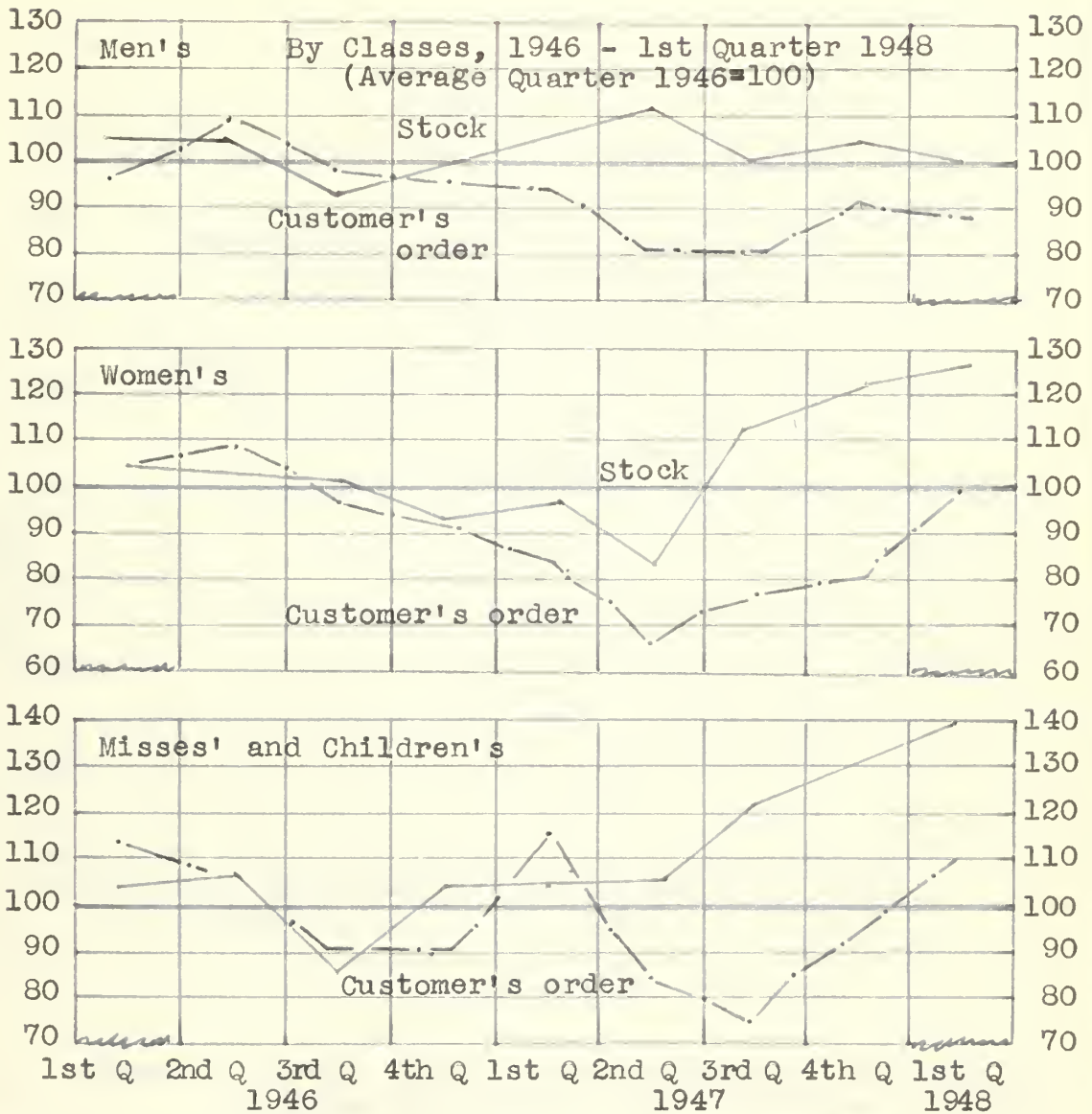
However, a study of 100 New England shoe companies by the Federal Reserve Bank of Boston in cooperation with the New England Shoe and Leather Association revealed the following facts: (2)

1. Only the bigger manufacturers maintained output from 1946 to 1947 better than the small firms.
 - a. In men's shoes, the larger firms increased output 7%, compared to a drop of 24% for other firms.
 - b. Among women's shoe producers, the larger firms suffered a combined loss in output of 27%; smaller companies' losses were 41%.
-

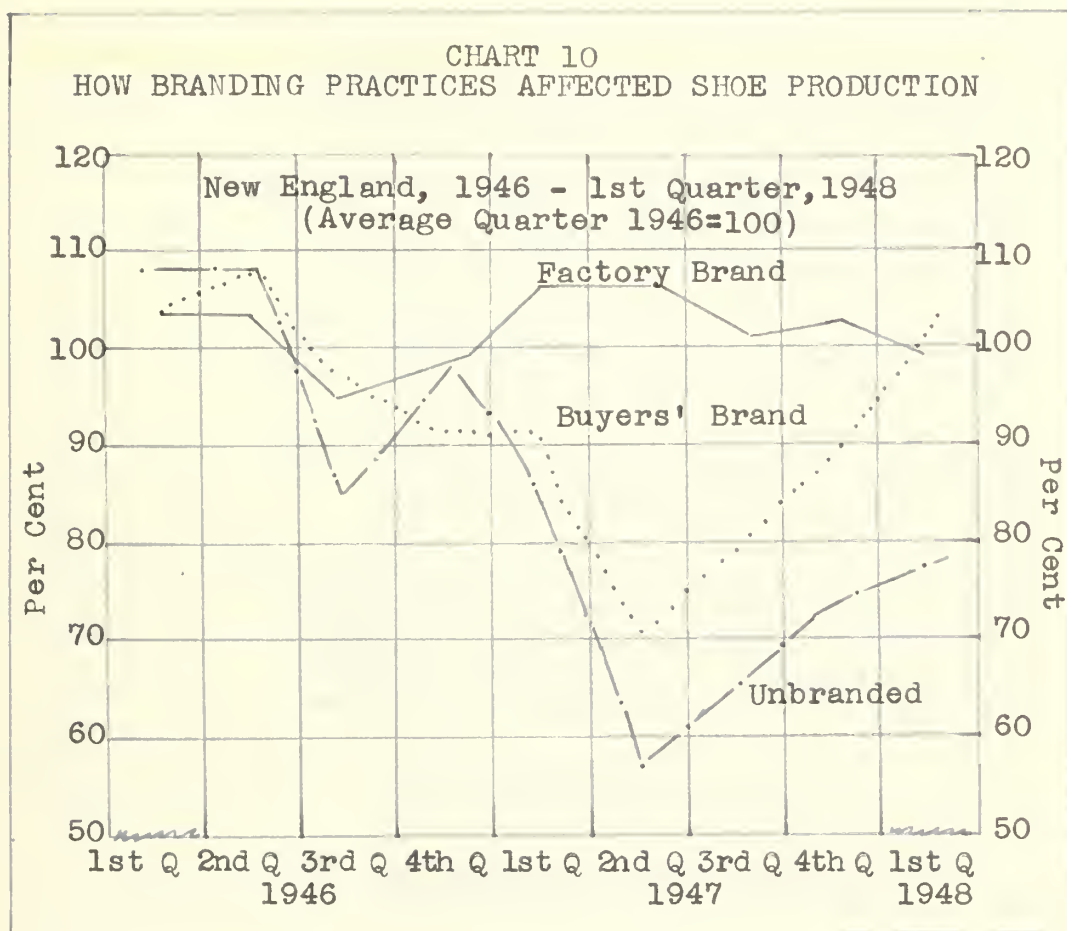
1--Out of 16 New England companies queried, only one gave the author full information. Five refused to give any, one submitted a stockholders' report and the others did not answer. Out of seven queries sent to national concerns, five gave full information, one sent a stockholders' report and one did not answer.

2--Federal Reserve Bank of Boston. The Outlook for the New England Shoe Industry, November, 1948, p. 7-8

CHART 9
NEW ENGLAND SHOE PRODUCTION FOR STOCK AND TO ORDER



Source: Federal Reserve Bank of Boston. The Outlook for the Shoe Industry, November 1948, p. 9



Source: Federal Reserve Bank of Boston. The Outlook for the New England Shoe Industry, November, 1948, p. 8

2. Companies specializing in medium-priced shoes showed the greatest stability of any New England group since January 1946.
3. Most companies distributed their products over a national area: 17% sold in New England, 28% in the Middle Atlantic states, 32% in the Middle West and Great Lakes states, and 23% throughout the rest of the nation.
4. Factory-branded shoes had the greatest stability in output, whereas buyer-branded or non-branded shoes fluctuated in volume.
 - a. Factory brands predominated in the men's shoes while buyers brands were more evident in women's shoes.
 - b. Factory brands were used for stock shoes and in all classes were more stable than shoes produced for customers' orders.
5. Outlets -- Twenty-seven per cent of 1947 shoe production (of the companies sampled) sold to chain stores, 26% to independents, 21% to company owned retail outlets, 17% to wholesalers and jobbers and 9% to other buyers.
 - a. Chain store selling seems to be a successful outlet for the sale of men's shoes.
 - b. Affiliated retail stores were the most successful outlets for women's shoes.
 - c. Misses' and children's shoes were most successful in sales to independent retailers.
6. Companies in the women's and men's shoe fields which advertised nationally and locally did not enjoy any particular advantage over those which did not.
 - a. Sixty-four per cent of the firms did no advertising nationally or locally.
 - b. Most of the firms which did advertise, advertised in national periodicals. In misses' and children's shoes advertising increased production.

D. Management

The immeasurable factor that has enabled New England to keep its foothold in the industry--in spite of distance from the national market and the disadvantage of small size, and in spite of the inability to profit from machine or processing developments--has been management.

Many of the men who are officers of one New England shoe company are officers in others as well. Many of these executives are steeped in the skill and tradition of shoemaking. For example, in 1924 the Daly Brothers Shoe Company, which was one of New England's older plants, became part of the Spencer Corporation. The Daly Brothers, John J. and Charles I., managed to obtain control of both Spencer and Daly Brothers. John also became the controlling stockholder and chairman of the Regal Shoe Company, another large corporation. Another example is the George E. Keith Company, makers of the famous "Walk-Over" shoes. Harold and J. R. Keith, sons of the founder, direct this corporation. In addition, Harold is a director of the United Shoe Machinery Corporation.

"....many of New England's small shoe factories are run by individuals who have rich backgrounds in shoe production and merchandising, who are keen in discerning trends, and who are sensitive to the convolutions of the market. The net effect of these influences is largely buried in the effects of the many other factors which affect the position of the industry. Nevertheless, it appears that the keenness and

aggressiveness of New England's shoe producers has offset any managerial disadvantages attributable to less than average size and has provided an appreciable though intangible support to the region's relative position in the industry. (1)

1--Federal Reserve Bank of Boston. The Outlook for the New England Shoe Industry, November, 1948, p. 4

VIII. CONCLUSION

A. Summary of Trends

1. The Highlights

- A. New England is making smaller and smaller contributions to national production.
- B. The small size of New England shoe producers is a disadvantage in the face of large-scale integration and diversification by the bigger companies.
- C. The New England industry is in Stage VI, while the national industry is in Stage V. Downswings in the business cycle will be greater than any upswing. That is, in any recession or depression New England will lose more ground in national production than it will gain in any prosperous period.
- D. Growth of other shoe-producing states will be at the expense of established areas, particularly New England.
 - 1. Even within New England there is a shift--Massachusetts is losing ground to both Maine and New Hampshire.
 - 2. New England itself cannot absorb the entire regional production.
- E. However, New England will probably continue to produce about the same percentage of the national production for the next few years. In 1948, upto June, production figures were off 1947 figures for the same period by only .4%.
(1)
 - 1. The outlook for the shoe industry is good since per capita consumption of shoes remains relatively stable and production for

1949 is estimated at a high figure of 450,000,000 pairs. (1)

2. New England should produce about 150,000,000 pairs. (2)

F. The industry, though the fourth largest employer in the New England area, is not an important element in New England economy. The low rate of increase in shoe consumption, the decline in national output and the consequent decline in employment needs for the industry have contributed to a smaller participation in the New England economy. (3)

2. A Structural Comparison of Five Selected Companies

Since there are no available data on many of the New England concerns, a representative selection of some of the larger and more well-known companies in comparison to national leaders will demonstrate the feasibility of buying, selling or holding securities of local shoe companies. Though this sampling is not indicative of the New England industry as a whole, it is indicative of the relative strength and position of the stronger regional companies; whatever findings hold true for the selected companies will hold true on a lesser scale for the others.

The three New England companies selected are the W.L. Douglas Company, the George E. Keith Company (Walk-Over), and the Regal Shoe Company. These three companies combined

- 1--Irving R. Glass, executive vice-president of the Tanners' Council of America. Boston Traveler, February 9, 1949
- 2--Maxwell Field, executive vice-president, New England Shoe and Leather Association. Boston Herald, January 30, 1949
- 3--Federal Reserve Bank of Boston. The Outlook for the New England Shoe Industry, November, 1948, p. 8

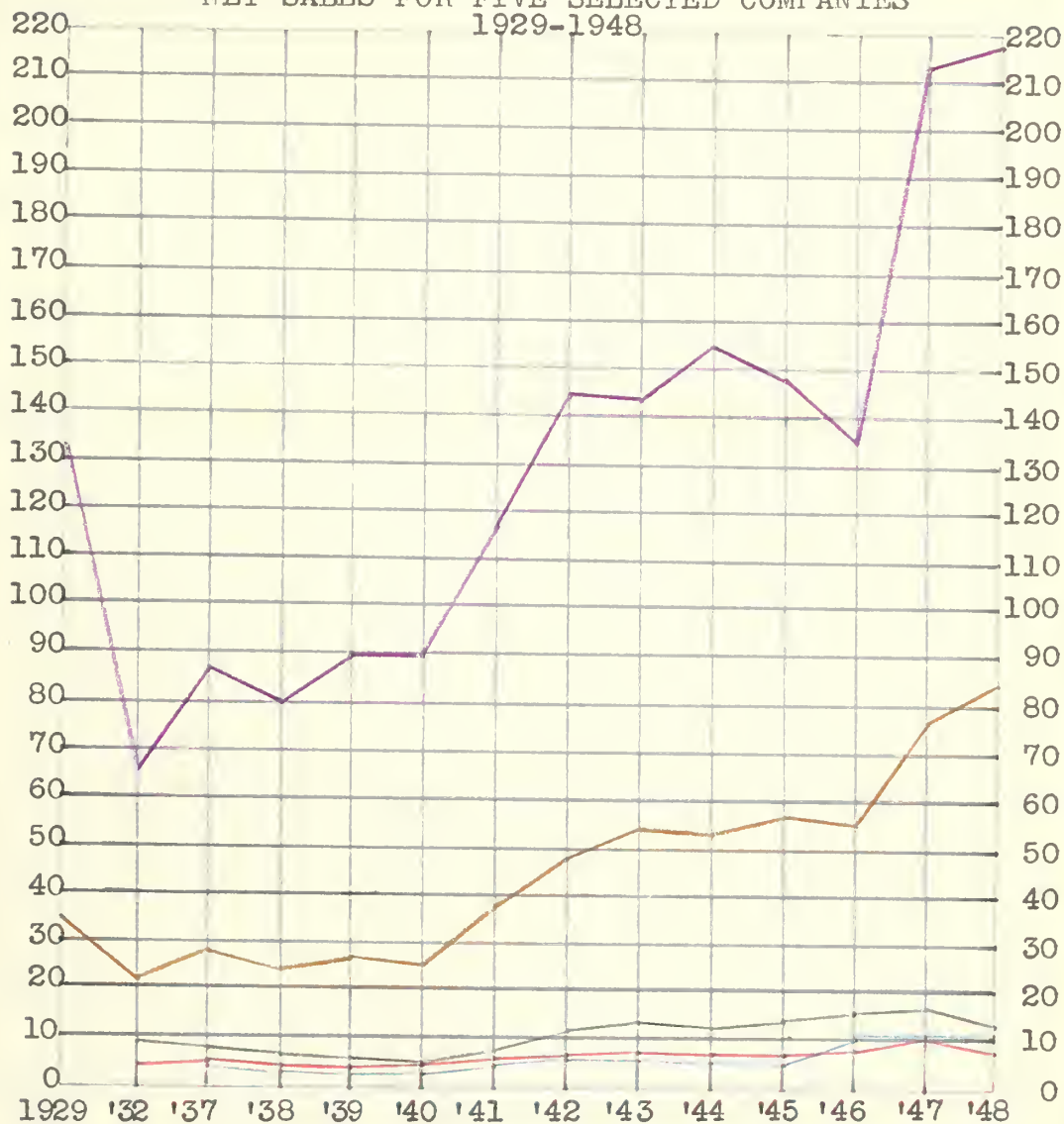
contributed seven per cent of New England's total sales for the year 1947, and are nationally known companies. All have their own retail outlets and all produce men's and women's shoes as their main products.

The two national companies selected for comparison are the International Shoe Company, the largest shoe manufacturer in the United States, and the Brown Shoe Company, the third largest shoe manufacturer in this country. Both companies have their headquarters in St. Louis, Missouri.

Without doubt International Shoe Company is the leader in net sales. The chart Net Sales for Five Selected Companies indicates that International is also subject to the extreme fluctuations of the business cycle. Although the three New England companies do not command a large part of national sales, nonetheless, they are less subject to sharp peaks and troughs. This stability in volume of business is advantageous only in periods of depression; in periods of prosperity it would indicate an inability to raise the volume of sales.

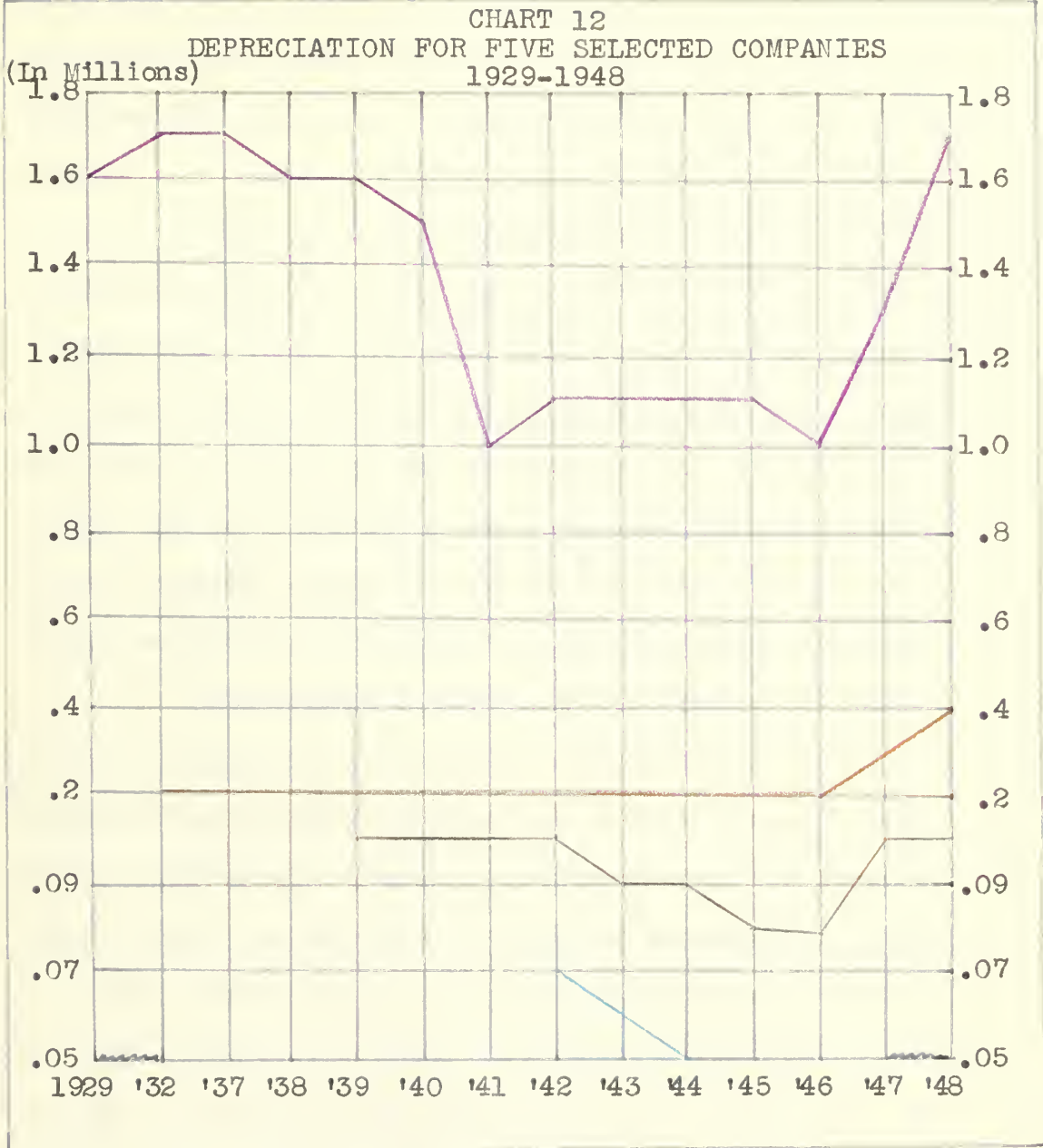
Although none of the shoe companies is subject to machinery depreciation, there is, however, a depreciation factor for the other phases of business operation. International's depreciation figures vary over the years, indicating the possibility of manipulation of the operating expense account. A comparison with physical property bought and sold over this period would be necessary to determine

CHART 11
NET SALES FOR FIVE SELECTED COMPANIES
1929-1948



— International Shoe Company
 — Brown Shoe Company
 — George E. Keith Company
 — W.L. Douglas Company
 — Regal Shoe Company

Source: Standard & Poor's Industry Survey, Leather & Shoe Basic Analysis, March 12, 1948.
Company Reports, 1948.



— International Shoe Company
 — Brown Shoe Company
 — George E. Keith Company
 — W.L. Douglas Company -- Not Reported
 — Regal Shoe Company

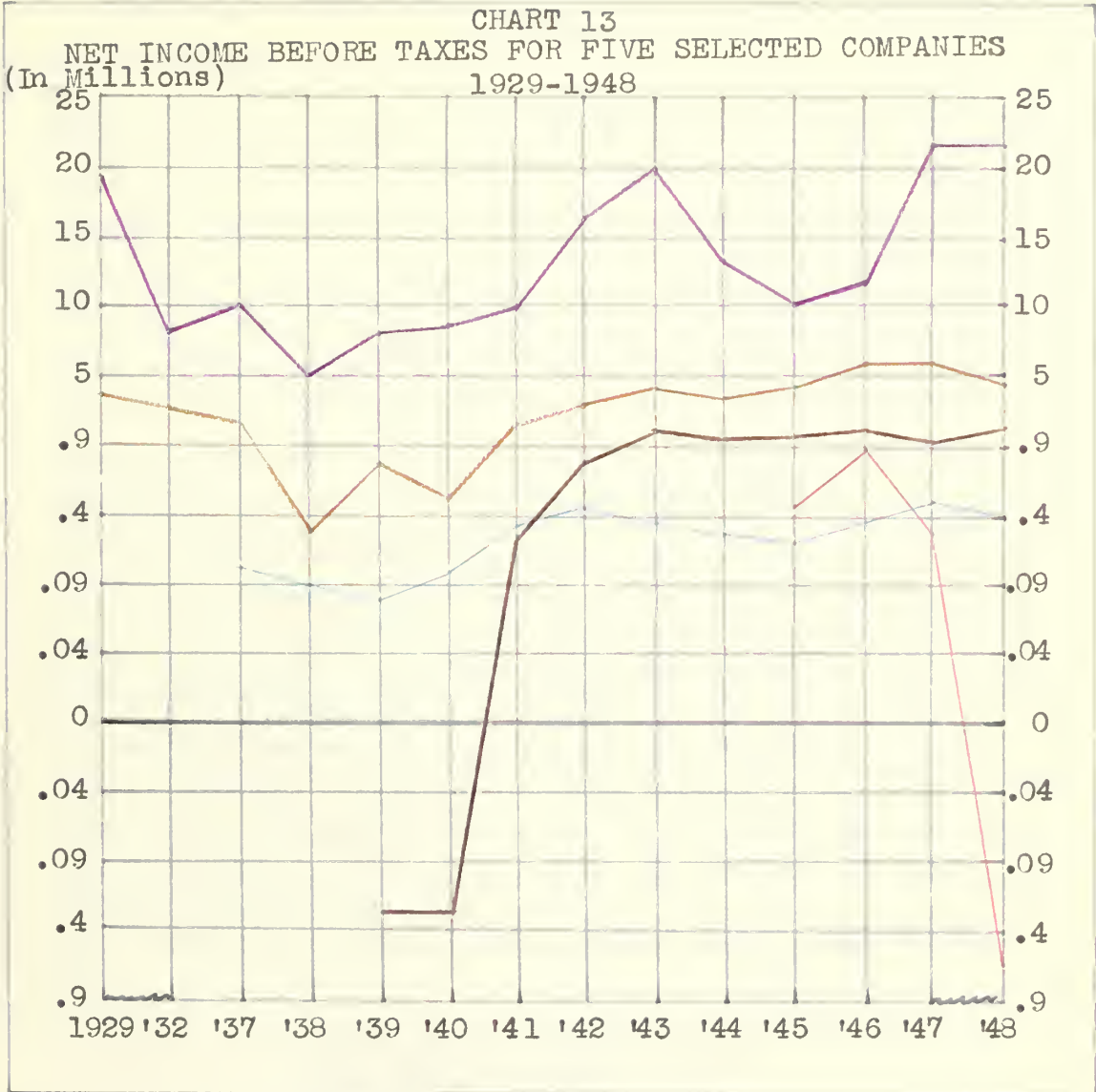
Source: Standard & Poor's Industry Survey, Leather & Shoe Basic Analysis, March 12, 1948.
Company Reports, 1948.

manipulation. Brown Shoe Company was more stable from 1929 to 1948, while the George E. Keith Company varied somewhat. Figures for the other two New England companies were unavailable.

The chart for "Net Income Before Taxes" is important for discerning the actual earning powers of the various companies. Again International is the leader with Brown showing great strength. The New England companies are closely bunched, but far below the other two in dollar earnings. It is interesting to note that the Keith company made a strong recovery in earnings since 1940, so that of the three regional concerns, it is the biggest revenue producer.

Net income after taxes and reserves reveals somewhat the same picture as net income before taxes. International's net income remained relatively steady from 1939 to 1946, while Brown showed a little more fluctuation during these years. Douglas and Keith suffered heavily during 1937 and 1938 with Douglas recovering more quickly than Keith. In 1948, however, Douglas operated at a deficit. Regal's net income fluctuated less than any of the other four companies, showing the best return for 1948 of any of the New England firms.

All three New England companies have little differences in their total assets; Walk-Over is the largest. In comparison to the colossi, International and Brown, the New England concerns are minor competitors.

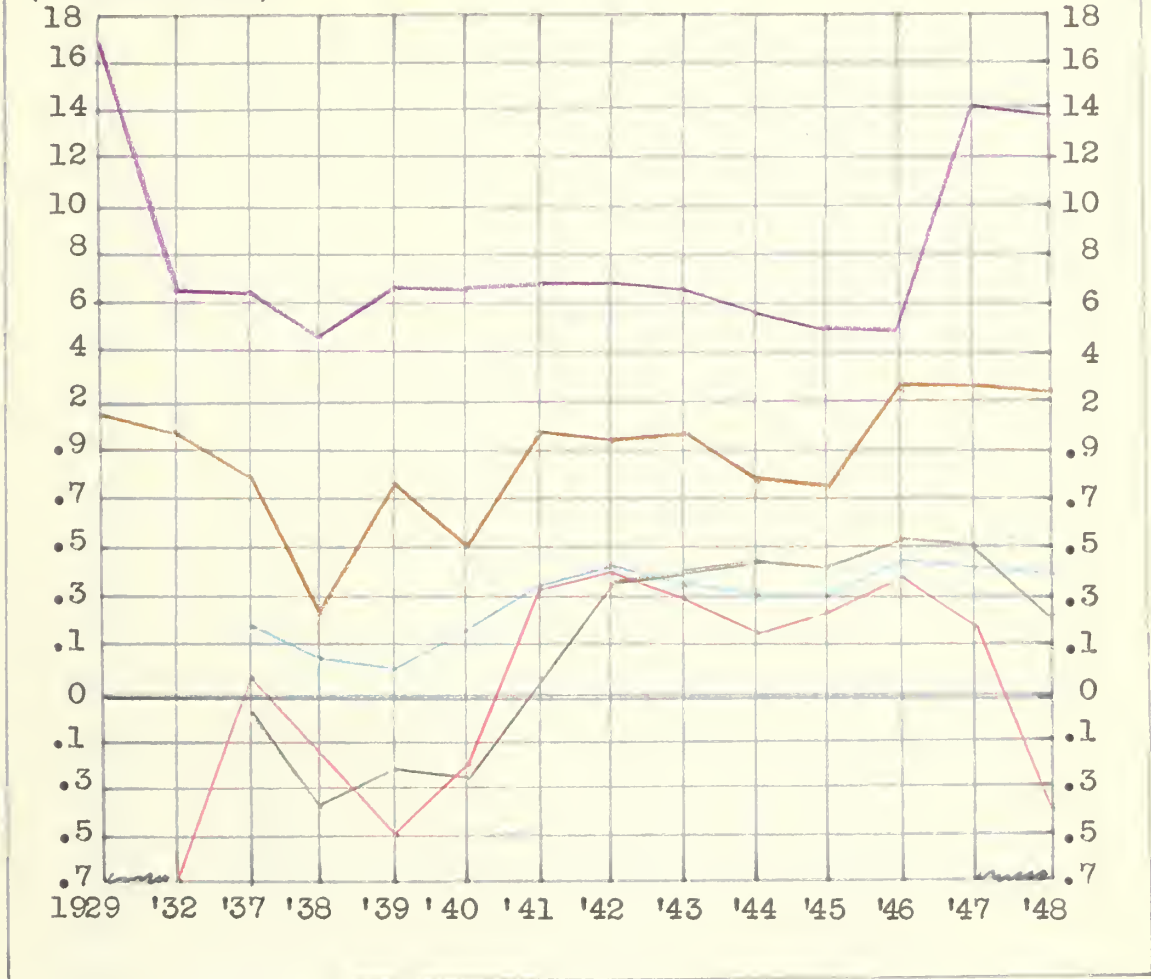


— International Shoe Company
 — Brown Shoe Company
 — George E. Keith Company
 — W.L. Douglas Company
 — Regal Shoe Company

Source: Standard & Poor's Industry Survey, Leather & Shoes, Basic Analysis, March 12, 1948.
 Company Reports, 1948.

CHART 14: NET INCOME FOR FIVE SELECTED COMPANIES
1929-1948

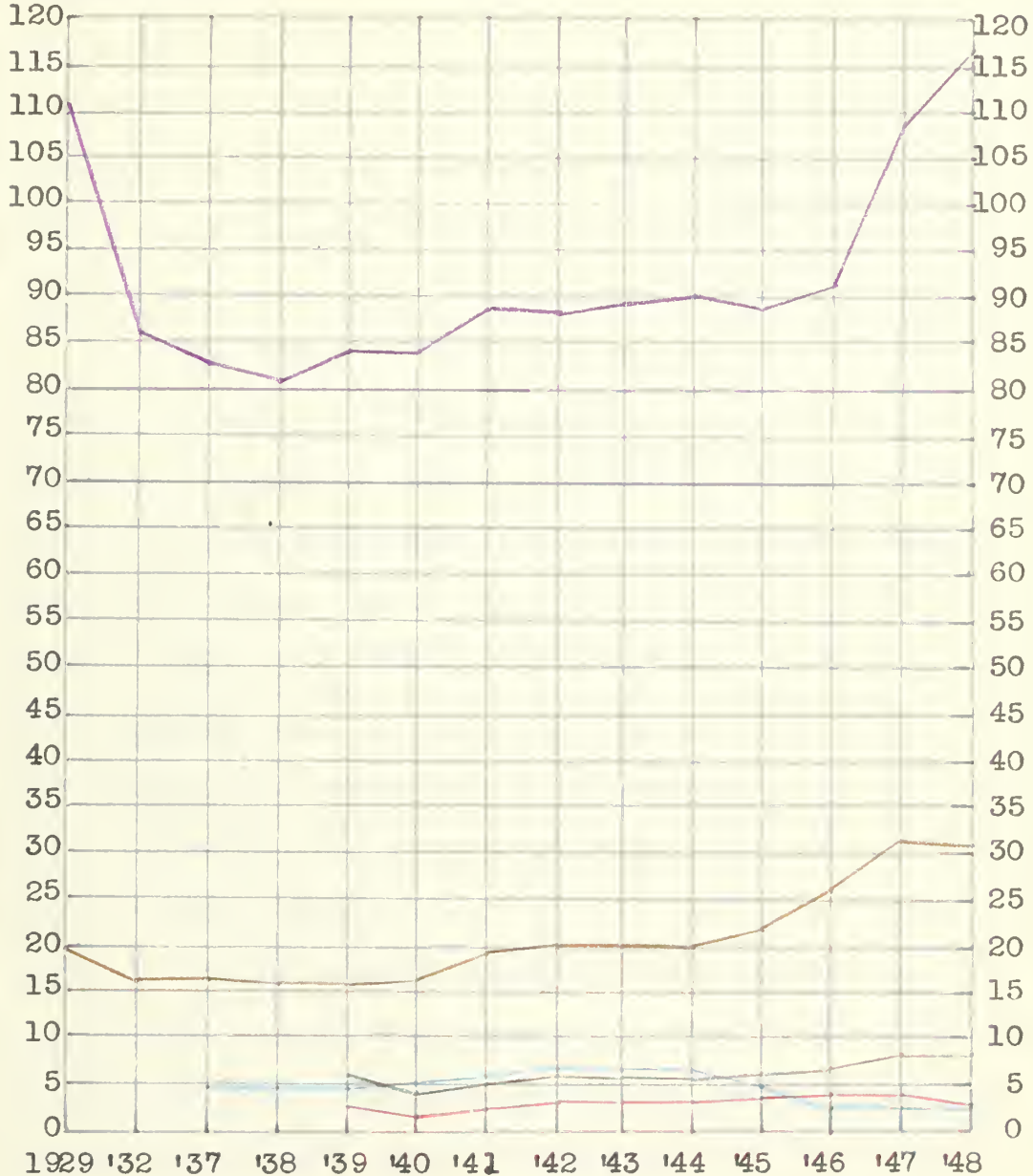
(In Millions)



International Shoe Company
 Brown Shoe Company
 George E. Keith Company
 W.L. Douglas Company
 Regal Shoe Company

Source: Standard & Poor's Industry Survey, Leather & Shoes, Basic Analysis, March 12, 1948.
Company Reports.

CHART 15: TOTAL ASSETS FOR FIVE SELECTED COMPANIES
(In Millions) 1929-1948



— International Shoe Company
 — Brown Shoe Company
 — George E. Keith Company
 — W.L. Douglas Company
 — Regal Shoe Company

Source: Standard & Poor's Industry Survey, Leather & Shoes, Basic Analysis, March 12, 1948.
Company Reports, 1948.

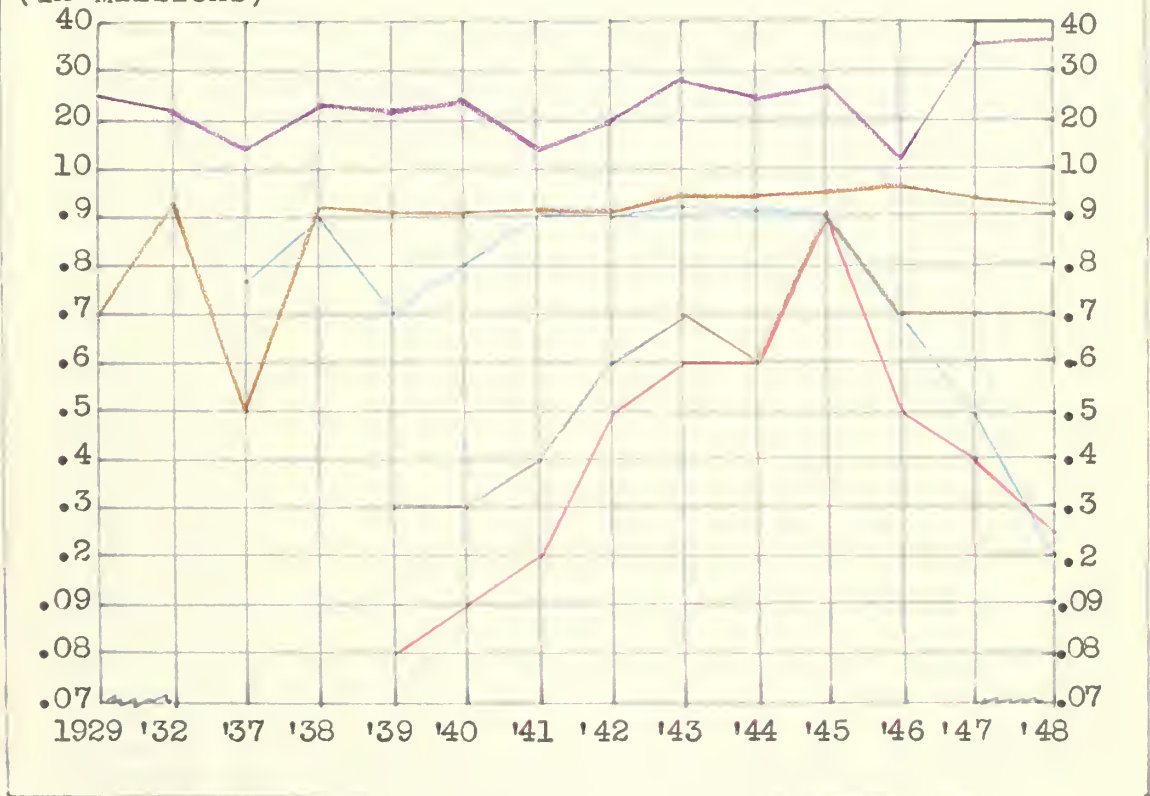
The possession of cash means very little; it is only when compared with liabilities that it has any significance. The chart "Cash Items" does show, however, stability on the part of four of the companies; again, it would be necessary to obtain a percentage of cash in relation to other current assets in order to determine whether the companies were increasing or decreasing their cash reserves.

The "Cash to Liability Ratio," on the other hand, is very revealing. It shows great fluctuations in all the companies. There is little consistency in each curve other than in periods of greater sales, cash reserves dwindle, and inventories rise. Regal, however, has shown a contrary trend in 1941--its inventories remained steady, its sales rose somewhat, but its cash position in relation to its current liabilities soared out of proportion with any other year. Evidently the management wished to keep extreme liquidity for that year in the face of a declining income. The George E. Keith Company, the Brown Shoe Company and the W.L. Douglas Company restored their liquidity in 1948 and leveled off their inventory purchases; whereas, International maintained a huge inventory to meet its increasing sales.

In the matter of receivables, almost all of the companies have shown a conservative approach toward increasing the amount carried on their books, with the exception of International. In fact, this item and the increase in inven-

CHART 16: CASH ITEMS FOR FIVE SELECTED COMPANIES
1929-1948

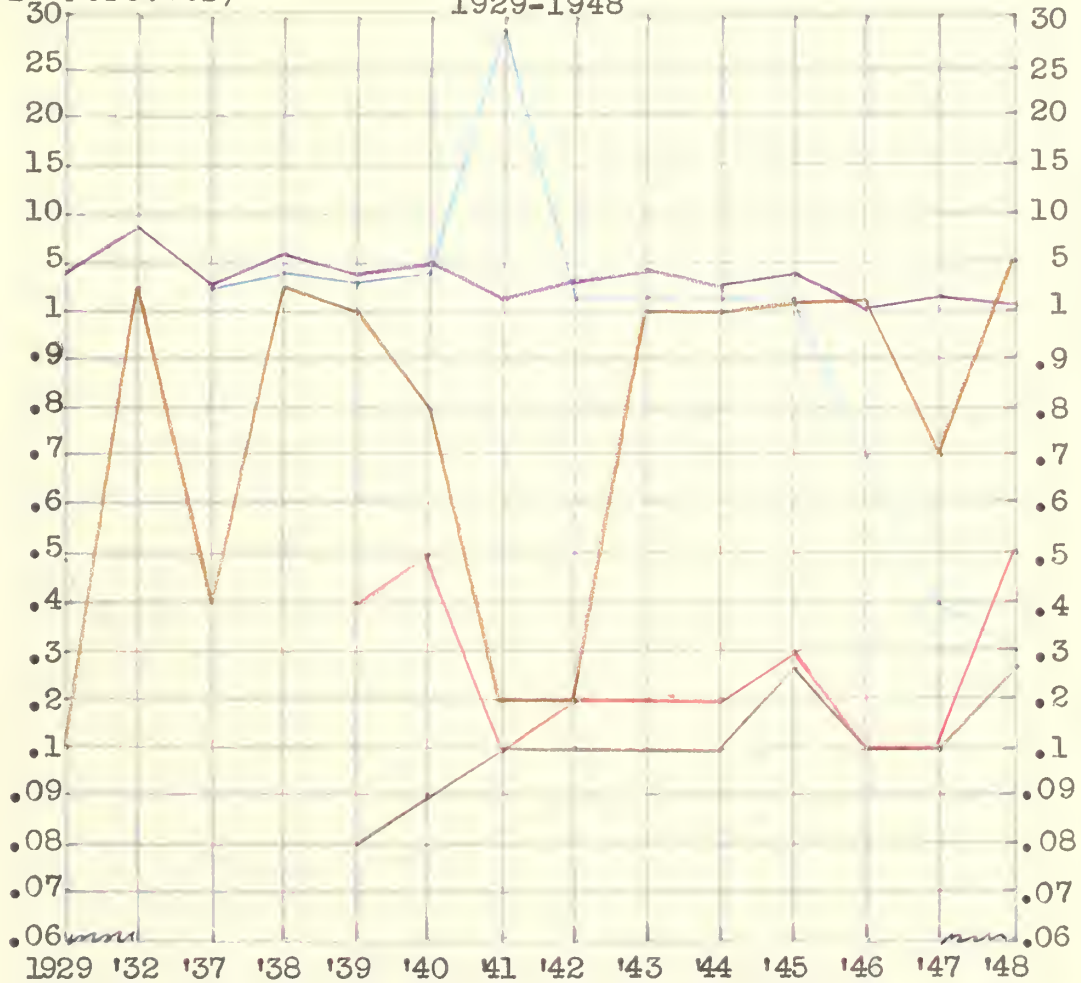
(In Millions)



International Shoe Company
 Brown Shoe Company
 George E. Keith Company
 W.L. Douglas Company
 Regal Shoe Company

Source: Standard & Poor's Industry Survey, Leather & Shoes, Basic Analysis, March 12, 1948.
Company Reports, 1948.

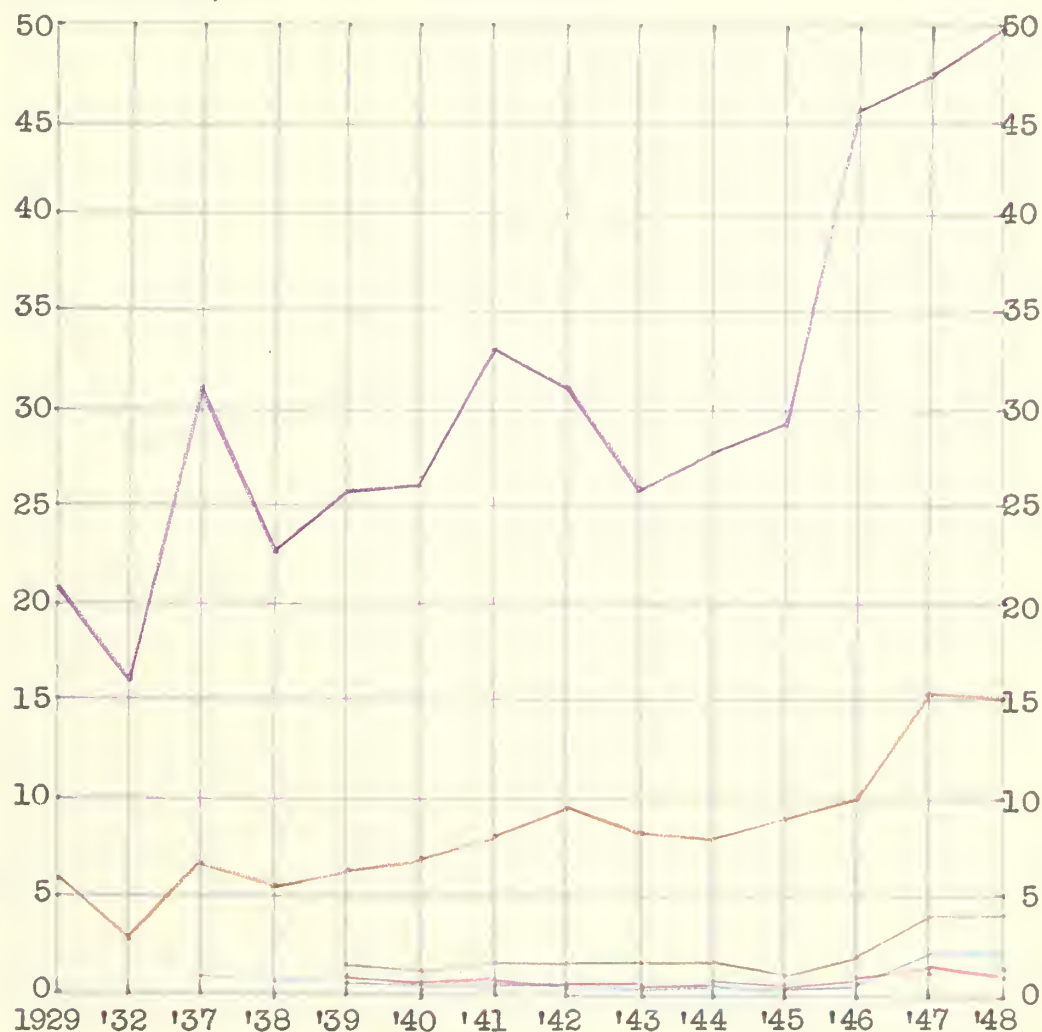
CHART 17: CASH TO LIABILITY RATIO FOR FIVE SELECTED COMPANIES
(In Percents) 1929-1948



International Shoe Company
Brown Shoe Company
George E. Keith Company
W.L. Douglas Company
Regal Shoe Company

Source: Standard & Poor's Industry Survey, Leather & Shoes, Basic Analysis, March 12, 1948.
Company Reports, 1948

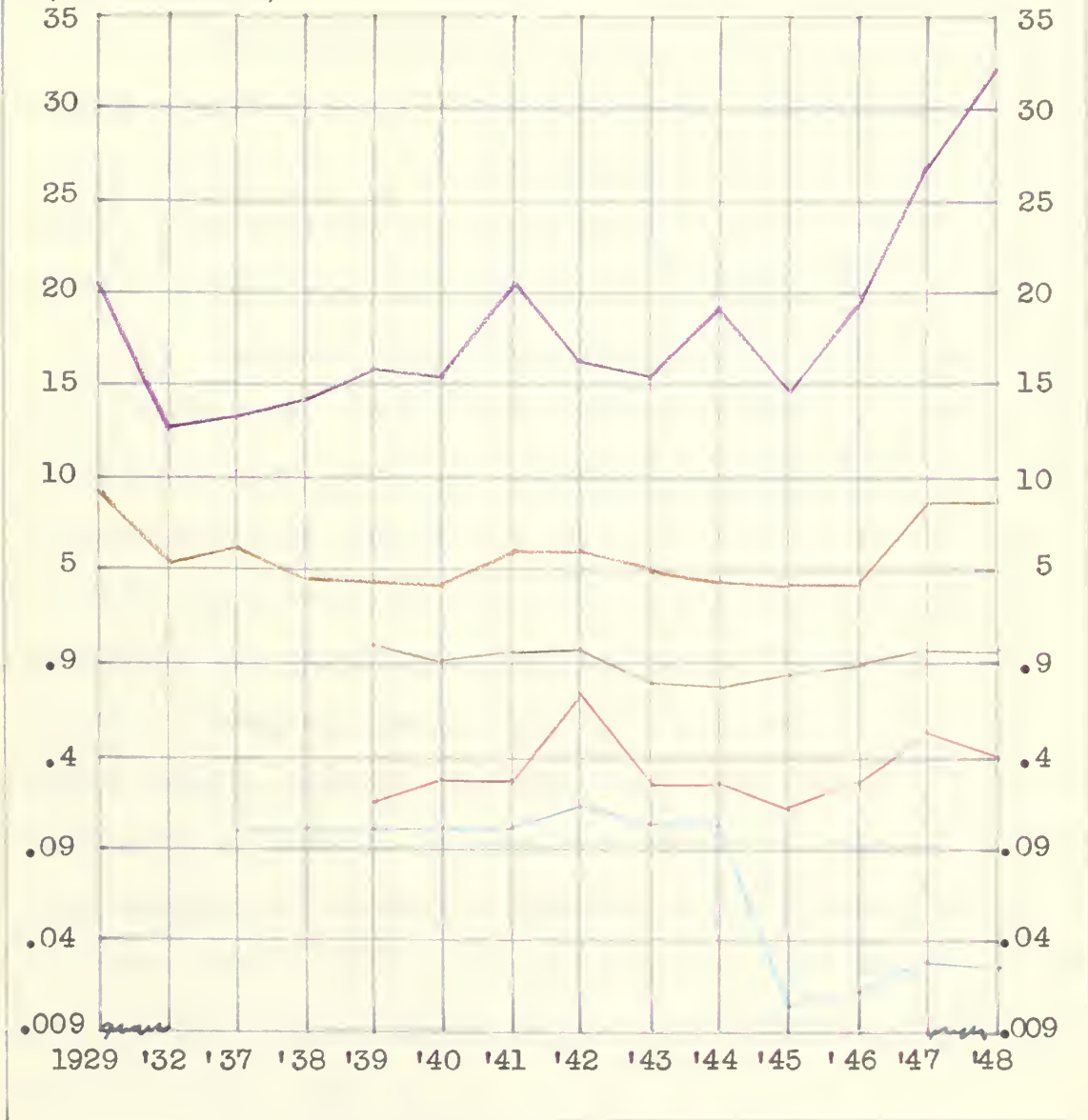
CHART 18: INVENTORIES FOR FIVE SELECTED COMPANIES
(In Millions) 1929-1948



— International Shoe Company
 — Brown Shoe Company
 — George E. Keith Company
 — W.L. Douglas Company
 — Regal Shoe Company

Source: Standard & Poor's Industry Survey, Leather & Shoes, Basic Analysis, March 12, 1948.
Company Reports, 1948.

CHART 19: RECEIVABLES FOR FIVE SELECTED COMPANIES
(In Millions) 1929-1948



International Shoe Company
Brown Shoe Company
George E. Keith Company
W.L. Douglas Company
Regal Shoe Company

Source: Standard & Poor's Industry Survey, Leather & Shoes, Basic Analysis, March 12, 1948.
Company Reports, 1948.

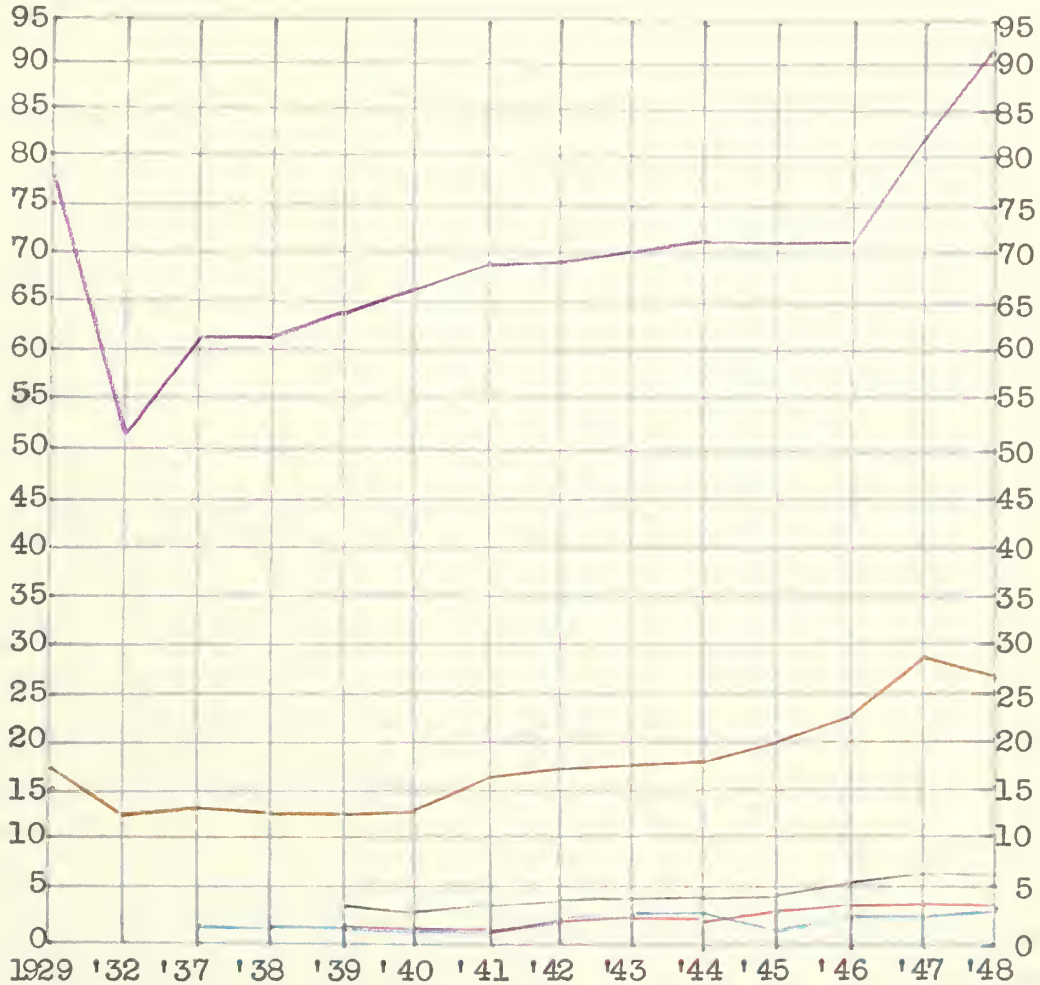
tory purchases probably account for International's downward trend in cash items.

The three New England companies show little ability to increase their current assets. (This, as previously noted, holds true for total assets.) In any case, this might be a reflection on management--it cannot provide expansion with rising profits in the industry as a whole.

Current liabilities alone, like cash items, are not significant. International, for instance, has increased its liabilities, but, at the same time, has increased current assets with the result that its net working capital has not been impaired. On the other hand, the Brown Company had decreased its liabilities and increased its net working capital. Douglas, Keith and Regal have managed to improve their working capital somewhat upto 1946, though Keith and Douglas have shown a decline for 1948. All companies have good current ratios--International and Brown are well above the 3.78 upper quartile recommended for shoe manufacturers; and Douglas, Regal and Keith are well above the lower quartile of 1.87. (1)

Summary: The bigger companies--International and Brown--have increased the dollar volume of sales and their net income considerably, whereas, the New England companies have been able to increase but little their position in the

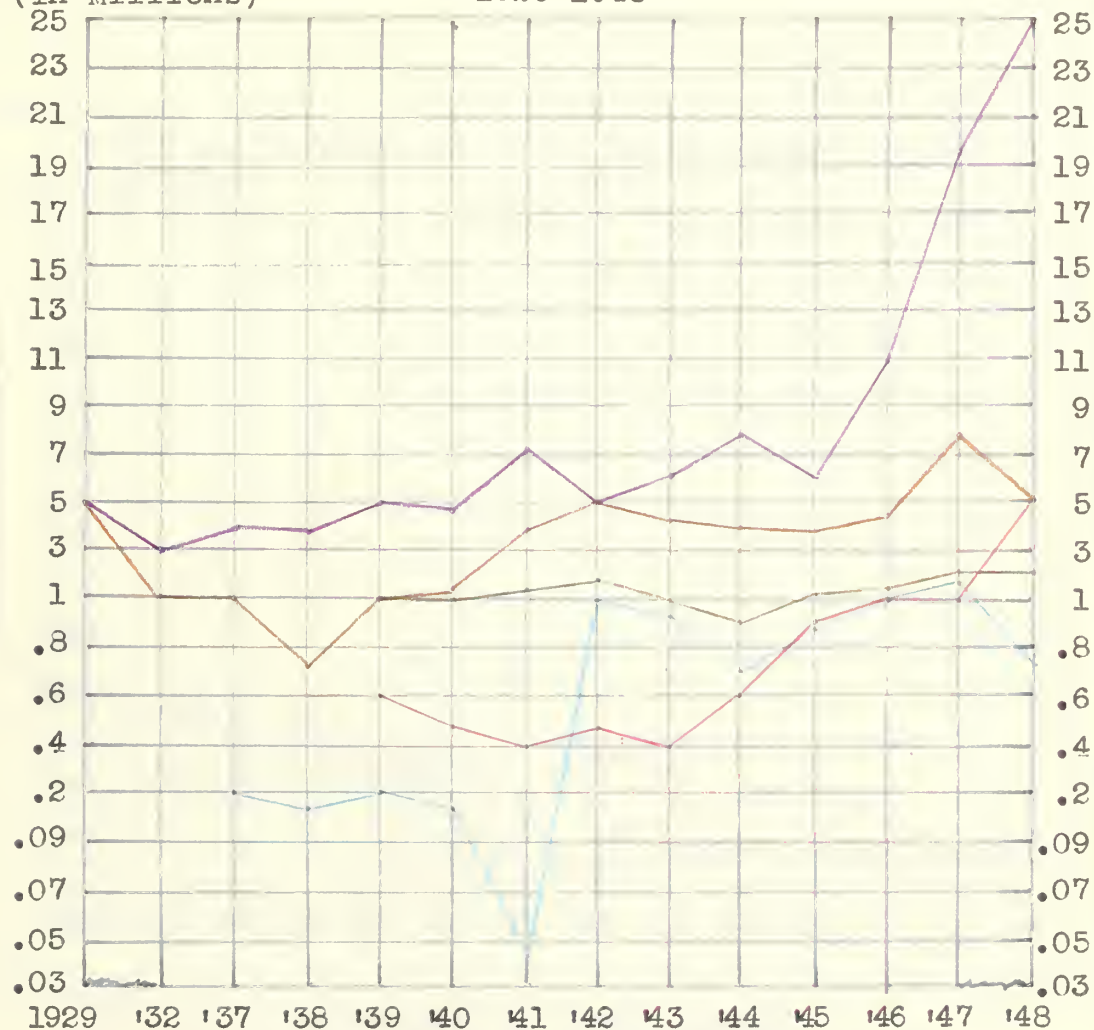
CHART 20: TOTAL CURRENT ASSETS FOR FIVE SELECTED COMPANIES
(In Millions) 1929-1948



— International Shoe Company
 — Brown Shoe Company
 — George E. Keith Company
 — W.L. Douglas Company
 — Regal Shoe Company

Source: Standard & Poor's Industry Survey, Leather & Shoes, Basic Analysis, March 12, 1948.
Company Reports, 1948.

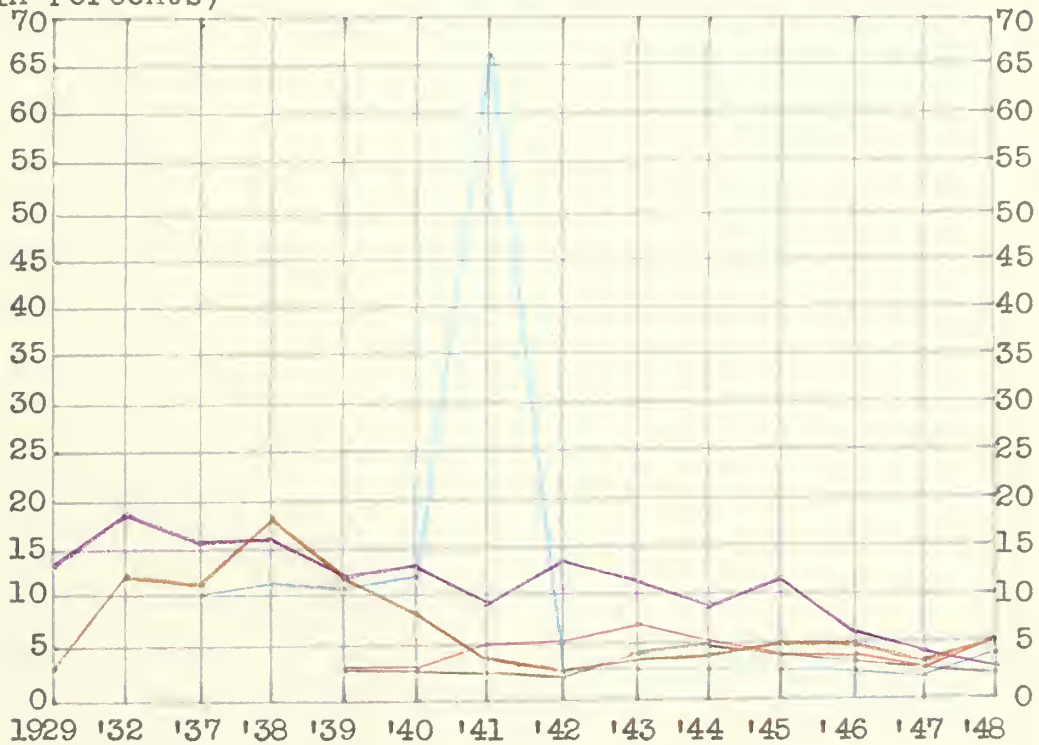
CHART 21: CURRENT LIABILITIES FOR FIVE SELECTED COMPANIES
(In Millions) 1929-1948



International Shoe Company
 Brown Shoe Company
 George E. Keith Company
 W.L. Douglas Company
 Regal Shoe Company

Source: Standard & Poor's Industry Survey, Leather & Shoes, Basic Analysis, March 12, 1948.
Company Reports, 1948.

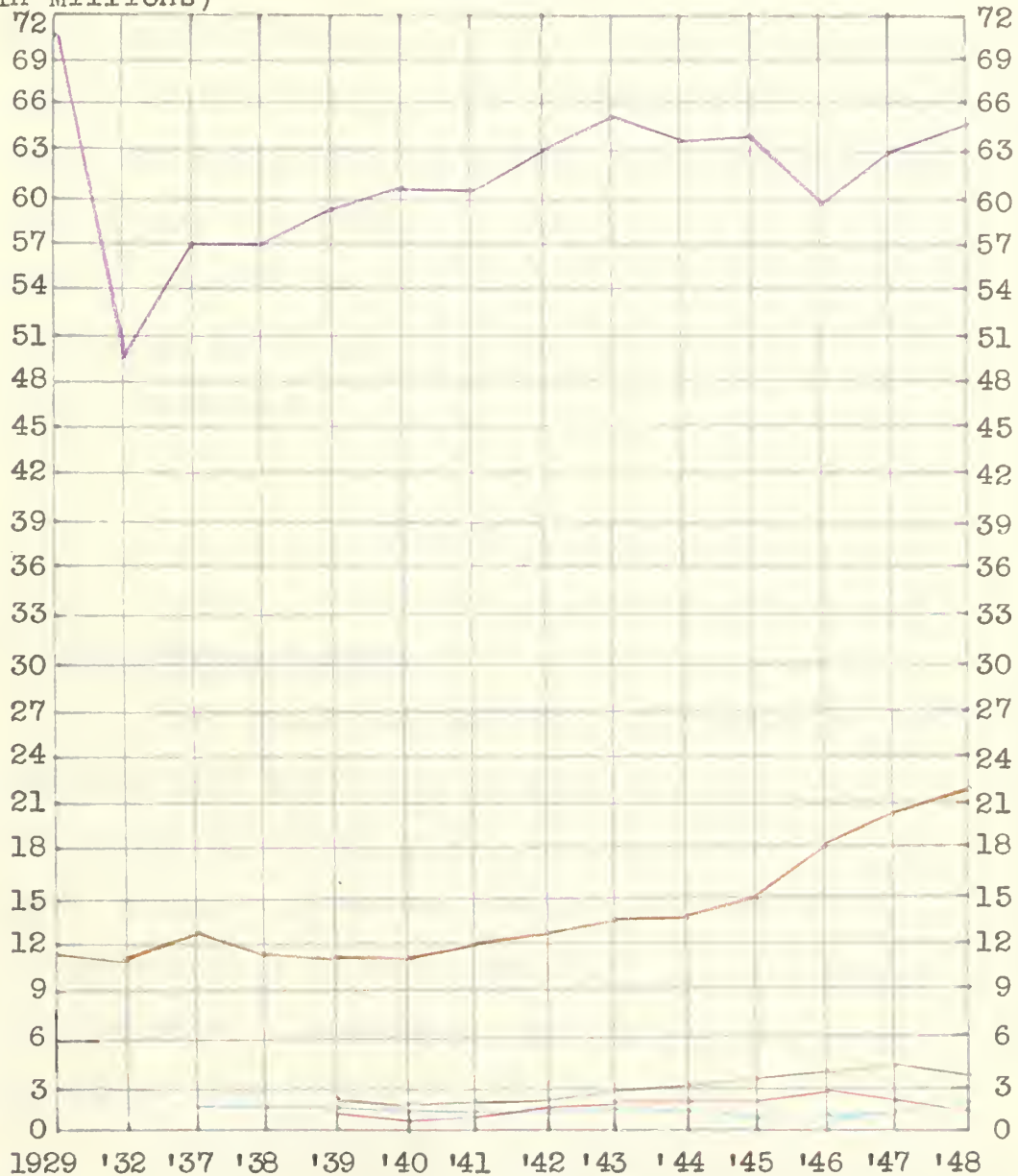
CHART 22: CURRENT RATIO FOR FIVE SELECTED COMPANIES
(In Percents) 1929-1948



— International Shoe Company
 — Brown Shoe Company
 — George E. Keith Company
 — W.L. Douglas Company
 — Regal Shoe Company

Source: Standard & Poor's Industry Survey, Leather & Shoes, Basic Analysis, March 12, 1948.
Company Reports, 1948.

CHART 23: NET WORKING CAPITAL FOR FIVE SELECTED COMPANIES
(In Millions) 1929-1948



International Shoe Company
Brown Shoe Company
George E. Keith Company
W.L. Douglas Company
Regal Shoe Company

Source: Standard & Poor's Industry Survey, Leather & Shoes, Basic Analysis, March 12, 1948.
Company Reports, 1948.

market. As a matter of fact, from 1947 to 1948 they have registered declines in income from the 1946 high, declines which, in proportion, are greater than those of the larger companies. This has also been true of total assets. Although the two larger companies--International and Brown--have managed to strengthen themselves, none of the New England concerns has made any great progress in increasing its trading position. Regal's, in fact, has shown a definite retrenchment.

B. Summary of Securities

1. The Preferred Stocks

The qualifications of a high grade preferred stock should be such that it is as safe as a good bond. In fact, this margin of safety should be large enough so that a dividend becomes a matter of course. Too, the industry must be stable enough so that variations in the business cycle will not cause a suspension of payments even if earnings are ample. (1)

Preferred stocks should meet the following requirements: (2)

- A. The preferred stock of the company (companies) should not exceed 33% of all securities outstanding.
-

1--Benjamin Graham and David L. Dodd. Security Analysis,
p. 190

2--David F. Jordan. Investments, p. 406

1. Regal has no preferred stock.
 2. W.L. Douglas and George E. Keith companies have preferred stock, the total of which composes more than 50% of all securities outstanding.
- B. The average total income for the five preceding years available for the payment of interest and dividends should be at least $2\frac{1}{2}$ times the average preferred dividend requirement plus the average bond interest, if any bonds are outstanding.
1. Regal has no bonds outstanding.
 2. Neither Douglas or Keith have bonds outstanding, but their average income for a four year period fall below the $2\frac{1}{2}$ times requirement.
 - a. Douglas' 7% cumulative preferred, par \$100 has been in arrears since 1947. Arrearage is now \$117.25 per share. On its \$1 cumulative convertible prior preferred, no par, it paid a dividend of \$.20 in 1938, none from 1939 to 1942, \$1.00 from 1943 to 1945, \$2.00 in 1946, \$1.00 in 1947, and \$.50 as of March 1, 1948.
 - b. Keith's \$5 cumulative prior preferred, par \$100 and \$2 non-cumulative junior prior preferred, par \$10 have had regular quarterly payments, though the 7% cumulative first preferred, par \$100, has not had a payment since 1938 and is now in arrears up to \$101.75 per share.
- C. The issues should preferably be noncallable and listed on a National Securities Exchange.
1. Douglas convertible prior preferred is callable and is not listed on any exchange.
 2. All of Keith's preferred stock is callable, and none is listed on any national exchange.
- D. The issue should preferably be one of a com-

pany which has no funded debt.

1. Regal's has no funded debt.

2. Keith and Douglas have no funded debt.

E. The company (companies) should be in a growing industry, supplying an essential product or service, fairly well integrated and not primarily interested in export sales.

1. Unfortunately the New England shoe industry is in a declining stage, having long ago passed its peak.

2. The industry as a whole is not growing. The New England companies are not too well integrated and do little exporting.

Summation: The preferred stocks of the George E. Keith and the W.L. Douglas shoe companies make poor investments. They do not, by any stretch of the imagination, warrant holding or buying. Now that these two companies have declined in earning power from their peak year of 1946, any returns on the stock will be sporadic and subject to the fluctuations of the business cycle.

2. The Common Stocks

The qualifications of a common stock is its future earnings. (1) Common stocks should meet the following tests: (2)

A. The common stock should have an unbroken dividend record for the preceding ten years.

1. Neither George E. Keith Company or W.L.

1--Benjamin Graham and David L. Dodd. Security Analysis, p. 352

2--David F. Jordan. Investments, p. 406

Douglas Company have paid any dividends on their common stock.

2. The Regal Shoe Company paid \$.58 per share in 1946, \$.30 in 1947 and as of October 15, 1948, \$.50.
- B. The market price should not be more than twenty times the average earnings per share for the preceding five years.
1. The average earnings per share for the Douglas company is \$1.60. In 1948 its common sold for a high of \$5.25--hardly twenty times the average earnings per share.
 2. For the Regal company average earnings per share were \$4.26. In 1948 it sold for \$5.38--a very low figure.
 3. Figures for the George E. Keith Company were unavailable.
- C. The prevailing dividend rate should afford a return on the cost price of not less than 3% per annum.
1. All three companies do not provide a substantial dividend, if they provide one at all.
 2. The common stock of the Keith company is held for control--25 stockholders control 20,248 shares or almost one-half the voting rights.
- D. The issue should be listed on a National Securities Exchange.
1. Douglas and Keith are not listed with any national exchange.
 2. The regal common stock, however, is listed on the New York Curb Exchange.
- E. The issue should preferably be one of a company which has no funded debt.
1. Regal's has no funded debt.
 2. Keith and Douglas have no funded debt.

F. The company should be in a growing industry, supplying an essential product or service, fairly well-integrated, and not primarily interested in export sales.

1. The companies are not too well-integrated.
2. They do supply an essential product or service, and do not depend on exports. But they are not in a growing industry. In fact, they represent a segment of an industry which is matured and is subject to business fluctuations.

Summation: The poor dividend returns, and the outlook for future earnings make the common stock a poor investment. Now that the peak of deferred demand, brought about by the war, has passed and consumer resistance to high prices has stiffened, the three companies will be in no position to give anything but the most meager of returns, if any, during the coming years. The situation is such that New England shoe companies must develop other lines of production such as misses' and children's shoes, if they are not to lose further ground to the bigger and better-integrated companies.

Any consideration of past history in the matter of dividend returns is strong evidence that only in the best of years, when other companies were paying very profitable returns on common stock, did the New England shoe companies pay any returns at all. There is no evidence to show that this will not be the policy in the future--even though earnings might warrant payment.

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DATE	REMARKS
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4:30	Stemmer

4:30
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